"RateGain Travel Technologies Limited Q1 FY23 Earnings Conference Call"

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MANAGEMENT:

- **MR. BHANU CHOPRA – CHAIRMAN & MANAGING DIRECTOR**
- **MR. TANMAYA DAS – CHIEF FINANCIAL OFFICER**
- **MR. ANKIT CHATURVEDI – GLOBAL HEAD, MARKETING**
- **MR. DIVIK ANAND –HEAD, INVESTOR RELATIONS**
- **MR. THOMAS JOSHUA – COMPANY SECRETARY**

Moderator: Ladies and gentlemen, good day and welcome to the RateGain Travel Technologies Limited Q1 FY23 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 date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhanu Chopra, Chairman & Managing Director, RateGain Travel Technologies Limited. Thank you and over to you, sir.

Bhanu Chopra: Thank you very much and good afternoon everyone and thank you for joining the earnings call for RateGain Travel Technologies Limited for the financial year ending June 30th.

We are very excited to meet all of you and share the key highlights of Q1 for this next fiscal year. Joining me on the call are Tanmaya Das, the CFO of RateGain, Ankit Chaturvedi, our Global head of marketing, Divik Anand, our Head for investor relations, and Thomas Joshua, Company Secretary of the Company, and alongside we also have our Investor Relations partner Strategic Growth Advisors.

We announced our first quarter results for the fiscal year 2023 and I hope you've had a chance to go through our financial results, press release and investor presentation that are available on the stock exchanges and also on our Company website. Our performance this quarter once again shows our commitment to our shareholders as we continue on our path of fiscal prudence and continue to be one of the very few profitable SaaS companies globally. We stay committed to improving profitability through cost optimization and revisiting our commercial agreements to increase revenue per customer.

In addition, the non-linear nature of our business led to 10% sequential increase in revenue quarter-over-quarter while head count only increased by 3%. Our results are a testament to the faith shown by our long-standing relationships with industry leaders that continue to trust us for helping them unlock new revenue.

Given the labor shortages that we are all hearing about in our industry, there is an acceleration towards digitization and RateGain is well positioned to capture this opportunity given the innovation and new product launches that we are doing using AI/ML to help our customers acquire guests, retain them and expand on their wallet share.

Talking about the macro level, we continue to see improvement in travel demand across the world with more countries now reporting numbers at pre-COVID levels or higher as per Skift Travel Health Index. We continue to see little or no impact on the overall travel industry as well as our business due to the ongoing increase in inflation, talk about rising interest rates or the ongoing Ukraine conflict.

On a year-on-year basis, we continue to see very healthy improvements across all our critical business metrics, the continued margin expansion taking into account the wage increments that we had this quarter, the increased travel given we are a B2B business and increased marketing spend.

Compared sequentially, we see robust growth and our annual recurring revenue is now 20% higher than pre-COVID levels and is 10% higher level compared to the last quarter. I want to commend the team on the continued endeavor to deliver consistently strong results even as most companies are facing strong headwinds.

While the world battled the pandemic for the last two years, traditionally, the first quarter of our financial year is a busy time for our customers across the world and in 2022, with the resumption of international travel and ease of restrictions across the US and Europe, we're witnessing the same as people travel in huge numbers for the first time in three years.

The MarTech business now has a recurring revenue of 99% contributing 41% of our overall revenue emerging as our biggest vertical as we predicted last year in previous earning call. Our growth has been driven by an increase in existing volumes and our Metasearch product. In the wake of rising cost and need to optimize marketing spend, the business unit continues to see considerable demand for its Metasearch and digital marketing offerings as more hotels strive to optimize costs, improve ROI and generate direct revenue through Metasearch platforms to reduce cost of customer acquisition.

We also added iconic luxury properties in Orlando and New York and our bundling of DaaS products with our MarTech businesses resonating very well as a and is a great differentiator in our MarTech business. Our way forward for this business unit as detailed earlier is to capture the complete digital marketing function and drive results by providing hotels the additional capability of connecting to Metasearch platforms, social media platforms and getting real-time insight to our DaaS product to be able to deliver better returns.

Our distribution business segment with recurring revenue of 99.5% and contributed 34% of our overall revenue in the first quarter. Given the return of travel, our transactional volume is up by close to 40% powered by an increased number of pairings as well as existing pairings going back to pre-COVID levels.

The big deals that we announced in Q3 of last fiscal year are now fully monetized. The DaaS business unit grew on the pack of strong volumes of our OTA and airline products driven by existing Tier 1 accounts and new accounts. Also, we entered adjacent sub-verticals within travel such as destination management companies and vacation rental companies and signed up for a set of customers.

One of our new products that I've talked about earlier in our DaaS business line REV AI saw continued traction by addition of net new accounts and expansion of some key accounts. This business of REV AI now growing over 100% year-on-year, we found the right product market fit within the car rental industry and holiday parks industry and with the key CRS integration in place within this quarter, we believe we have built a moat in this business.

Our strategy is to continue to penetrate these two verticals for RevAI and then look at other sub-verticals within travel industry. The recurring revenue for DaaS business is around 98.2% and contributed to 25% of the revenue in the first quarter.

Just to give you some key highlights on M&A, we have a very, very robust pipeline and we are looking to consummate only if the value is right. These opportunities spread across our different business lines and will strengthen each of them.

On RG Labs, our R&D division, we continue to invest in scaling our existing offerings. RevAI already talked about, Demand-AI and Content.AI. On the back of the success of these new products, we are investing in launching new products and we are test piloting them in this quarter and I'll be able to share more details in the next quarter.

In terms of awards and recognition on the people front, we were recognized this quarter as one of the best companies for career growth in the US comparably, which is a leading provider of compensation and culture data globally.

I'd now ask our CFO – 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.

We continue to grow from strength to strength on the back of another robust quarterly performance. We continue to improve our margins year-over-year in a quarter that is facing global headwinds in the macroeconomic environment. Strong revenue growth and margin expansion reflect the business performance in a historically challenging quarter.

We also are now able to see revenue diversification with our expanding footprint in Europe. The global environment uncertainty continues but travel demand remains strong across key geographies, reflecting the industry remaining on a strong footing.

Due to seasonality of our business as to due to the travel booking patterns throughout the year, it's more relevant to see year-over-year performance rather than quarterly sequential performance as Q1, historically, has been our weakest quarter and Q4 the strongest, both in terms of revenue and profitability.

Despite of them, we grew sequentially 10% in Q1 as against Q4 last financial year. Continuing with the momentum last couple of quarters, the company registered a 59% year-over-year revenue growth with Q1 FY23 revenue at 119.3 crore compared to 74.9 crore in the corresponding quarter last year. The growth is primarily on the back of large amount of new contracts won in Q3 and Q4 of last financial year.

In terms of profitability, in our last earnings call, we had given a guidance of 10% adjusted EBITDA for Q1, which will continue to improve in subsequent quarters to register 12.5% adjusted EBITDA for financial year '23. Happy to report that the company reported 10.4% adjusted EBITDA as against 8.1% in Q1 FY22. It registered a strong growth of 103% coming in at 12.3 crore in Q1 FY23 over 6.1 crore in Q1 FY22. Adjust PAT stood at 14.9 crore in Q1 FY23 compared to 4.05 crore in Q1 FY23 which was a 267% growth.

EBITDA margins at Q1 are in line with our expectations and the guidance given and will continue to improve sequentially even after taking into consideration annual appraisals, increased marketing spends and travel expenses. Our payroll cost which saw an increase this quarter by 13% sequentially, excluding the ESOPs expenses as we had a large reversal in Q4 FY22 to the tune of 2.74 crore primarily because of the annual increments, which kicked in in April and some key hires which were delayed in Q4 as indicated in the last earnings call. Your payroll cost will see minimal increase in rest of the quarters whereas revenue will continue to increase quarter-over-quarter at a higher rate resulting in higher margins.

The company continues to have strong customer relationships that are helping in building predictable stable and sustainable revenue streams. Recurring revenues for the quarter stood at 99%. 77% of our revenue were in subscription nature which improved from 75% in last quarter. Gross revenue retention was 90% and net revenue retention was at 105%.

Our new contract wins remains steady towards last year same quarter at 18.9 crore so as our LTV to CAC, which stood at 8.9 for the quarter. Our employee head count saw a 3% increase sequentially whereas revenue growth was 10% resulting in a higher revenue per employee by 10%, which stood at 0.77 crore per employee.

Our Annual Recurring Revenue stood at 477.2 crores which is 20% more than pre- COVID levels. Our pipeline increased by 10% to 308.6 crore as compared to last quarter. We will continue to have strong balance sheet where our net worth saw an increase by 3% as compared to last quarter and stood at 634.8 crore. Our cash and cash equivalent balance for the quarter increased by 8.1 crore and now stands at 417.1 crore.

And as per guidance for Q2 and FY23, we expect to continue our growth north of 30% year-over-year and expand our margins to 12% next quarter.

We can now open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Anmol Grover from Albatross Capital. Please go ahead.

Anmol Grover: I have three questions, sir. My first question is can you shed some light on what is the current pricing environment that you are seeing with the new dues coming up? My second question is on the cash utilization. So, now your P&L is in the green and you're generating some cash and I think you have also some proceeds from the IPO. So, what is your cash utilization? How it's going to be going forward? And the third question is what would be the three year margin guidance if you can give any going forward?

Tanmaya Das: I missed your first question which is regarding the new contract wins.

Anmol Grover: My first question was on the pricing environment. What is the current pricing environment that you were seeing as of now?

Tanmaya Das: So, currently it varies from our three business units. So, distribution business is a very sticky business and we really drive our pricing power there and we do like the CPI increases every year, year-over-over and we don't get much resistance there. On the DaaS and MarTech divisions, we are now in most of our contracts back to the pre-COVID levels in terms of revising the prices and there are still few customers who are running at pre-COVID levels but now we are pushing them to come back to the pre-COVID level pricings. So, that's the current scenario. Obviously, price is sensitive at this point of time because profitability for hotels is paramount at this point of time. But we see much higher ADRs. If you see, the hotel prices have increased significantly and all. So, that will in the long term is going to help us in improving our prices as well.

Your second question was on the -

Anmol Grover: Cash utilization.

Tanmaya Das: Cash utilization. So, we did raise 350 odd crore in the IPO and we have paid our debt. Balance is supposed to be utilized for M&A and some tech investments. So, the tech investments have slowly started. Now I think from next quarter onwards you will see some utilization there. As Bhanu stated about M&A, we are in pursuit but we will do the deal if the price is right only, and it's kind of value accredited. So, the timing of that we cannot commit, but we are on it at this point of time. So, yes, we are generating cash every year, I think, is the healthy margins that we are going to expect going forward as well.

So, your last question is on the long-term margin guidance, right? So, you know, in the IPO roadshow the guidance that we have given is too from a three to four years' timeline, we tend to be around 20 to 25% EBITDA margin, and I think we are in route to back. We expect to improve our margin 200 to 300 basis points each year. So, based upon Q1 results, which saw almost a 200% to 230% basis point improvement over Q1 of last year, so I think we are on track to that.

Bhanu Chopra: Anmol, I just want to add on the question on the pricing environment also is a function of what the competitive intensity is. So, you know, a lot of the new product launches that we are doing, they're pretty green field with limited to no competitive intensity. As a result of which, you know, we are able to charge basis what value we're driving for our customers and the gross margins on all these new product launches is significantly higher, you know, north of 90%. So, I see, given the value, given low competitive intensity, in everything new that we are doing, you know, it's quite favorable for us.

Moderator: Thank you. We have our next question from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: So, I'll have two questions. One is regarding the industry and the other will be focusing your company's performance. So, my first question is related to industry. In India, we are looking at everything really in terms of demand and occupancy in terms of the hotels, but we wanted to hear from you, because our market is more towards US, because recently we read an article where it said that the growth of US vacation rental demand is quickly decelerating. So, just wanted your view on this, and how it is panning out? That would be great.

Bhanu Chopra: So, in terms of as you rightly pointed out most of our business, you know, comes from US and Europe and you know, as a result of the headwinds those markets are seeing in terms of recession and rising interest rates and also the Ukraine conflict, you know, so far we haven't seen any changes in terms of the demand and in terms of the volumes that we see, the transactional volumes that we see, you know, they are fairly consistent and robust, and we'll be able to give you more color whenever we speak next. As far as we can tell and whatever reports we are reading, you know, consumers are readjusting how they do their discretionary spend, and travel is on top of the list and the priority given that all of us have been locked up for the last two years.

Ankit Kanodia: And my next question would be related to some SaaS metrics which we declare in our results. So, we all know the rule of 40 which is used for comparing SaaS companies and anyways, till now we are anyway much, much ahead of that. So, if we add the EBITDA margin with our growth rate of revenue, we have somewhere north of 50, but I just wanted your direction in the sense that say one year, two years down the line, which do you think EBITDA going up will be a much faster trajectory or it will be more led by revenue growth only? I hope I could make my question clear or shall I repeat?

Bhanu Chopra: I've understood your question. I think what you're seeking is the focus more on, you know, revenue growth or is it more on EBITDA growth? I think that's what you're alluding to, right?

Ankit Kanodia: Right.

Bhanu Chopra: So, look, you know, we believe that at a minimum, we should be growing at 30%. So, you know, the growth of 30% and more is quite paramount to us and as you would notice in our numbers this quarter and even if you look at our numbers in the previous two quarters, you know, we're exceeding that number quite comfortably, and as a result of which the focus now became more on profitability and margin expansion. So, as long as we are meeting and growing beyond that 30% threshold, we want to do it profitably and focus will go on our margins.

But if our growth goes down, then the focus will be to continue to keep it above 30% and the outlook that I can see for the next at least couple of years, we feel very, very comfortable. One, our industry is growing at 26%. Two, you know, given the penetration that we are enjoying, because we already work with all the large hotel chains, the top 25 out of the top 30 hotel chains, the top 23 out of the top 25 OTAs, all the big car rental companies, so our game is of penetrating and with all these new product launches, which is unprecedented over the last two years, we have more products to sell. So, you know, given all the good stuff that's happening with penetration and new product launches, you know, we feel very, very comfortable on the growth and we want to do it sensibly, and that's why the focus now has become more on margins and our goal is, as we have guided earlier, to continue to expand the margins by 200 basis points year-over-year.

Ankit Kanodia: Just to follow up on this for growth, if you can segregate the growth into how much of that would lead to, will be because of cross selling and how much would be a new acquisition any ballpark? I know you cannot comment, doesn't give any clear guidance, but any ballpark number as to how much do you think it will be led by? Because we have got new businesses. We are acquiring new business where we see a lot of cross-selling opportunity already within our existing set of customers.

Bhanu Chopra: So, let me clarify, you know, when we talk about cross selling and upselling, how does it really work? So, for instance, I'll take an example of a large hotel chain like a Marriott and Marriott could be using, under each of our business lines, we have several products. They could be using one of our products across maybe a few hundred properties versus all the 6,000 properties that they have. So, one goal is to continue to expand the base that we have with Marriott across moving it to across all the properties, which we call sort of land and expand. The other is, you know, cross-selling additional capabilities, additional products under the different business lines. So, you know, both those mechanisms are in play. I'll let Tanmaya talk about how much of it is cross-sell, upsell versus net new. Net new is largely, you know, I want to say there are, of course, new hotel chains we are requiring as customers, but as I talked about in my opening remarks, we continue to also look for segment in other verticals of travel, other sub-verticals. So, you know, for instance, in this quarter, it was almost an accident how we entered into destination management companies and vacation rental companies and we're seeing great, you know, it resonating very well our DaaS products. So, you know, that's where we see when we go into new sub-verticals larger net new addition of customers.

Tanmaya Das: I can add to that in terms of numbers like when you're targeting a 30% growth, the targeted net retention rate that we do is around 110 to 115%. So, I would say like 100, you know, 10 to 15% should come from the existing customers by cross selling and upselling and balance should be like from the new customers. So, Q1 was 105%, because it's a slow quarter for us, and it is going to sequentially increase to reach to that level. But I would say like 10 to 15% from existing customers and balance from new customers, if that answers your query.

Moderator: Thank you. We have our next question from the line of Madhuchanda Dey from MC Pro. Please go ahead.

Madhuchanda Dey: I just had couple of questions. The first one is, was there any surprise in terms of the revenue that you reported in Q1? And if yes, what led to the surprise?

Tanmaya Das: I think the results are as per the expectations. So, yes, I think there are certain some positive surprises in terms of I did not expect the business travel to come back so strongly. So, that actually really helped in our volume increases and all, because that is, we expected the business travel to be around 50, 60% of pre-COVID levels this quarter. But it's really has gone up to like 80% of pre-COVID levels. So, that was a positive surprise for us. Bhanu, do you want to add anything? I don't see. I think, it was as per the expectation.

Madhuchanda Dey: The second question is since I'm pretty new to your company, I just wanted to understand the model a little better. How much of your revenue volatility is linked to upswing or downswing in travel? The reason I'm asking you this question is, of course, there is a looming fear of recession in most of the western markets and should that impact discretionary consumption including travel, what percentage of your projection or expectation would be at threat?

Tanmaya Das: This quarter we had a 77% of subscription revenue and 23% is on transaction revenue. It's a optimum mix actually. Because of the high subscription revenue, our degrowth in the COVID was much lesser than some of the big players like everyone was like led down by 60, 70%, but we are down only 30% because of the high subscription revenue and the transaction revenue really multi-folds when the demand is high. So, we have a like high subscription-based revenue. So, I think the impact will be much lesser, if any impact happens.

Madhuchanda Dey: But maybe your client addition and client mining engine would slow down. That is what you are guiding to, right?

Tanmaya Das: Are you talking about what will happen in the recession?

Madhuchanda Dey: Yes, should there be a recession?

Bhanu Chopra: I'll take that, Tanmaya. So, as Tanmaya pointed out, you know, to put it simply, if there is a recession and you know, the consumption story is impacted as well, although all the reports suggest otherwise, even if there were a recession what we are hearing or reading is that travel is now on top of the list and people are prioritizing it. So, at least in the near term, we should not see an impact, but even if this trend were to normalize, you know, this will impact our transactional revenues and as Tanmaya indicated, transactional revenues are 23% of our overall pie. But there is another trend that we are seeing that should hopefully offset any dip in discretionary spend and that trend is, you know, the move towards digitization using really technology. I'm sure all of you have experienced that, you know, hotels are the least digitized industry and what has happened is because of this pent-up demand, you know, now a lot of the stuff that was very, very people-dependent is suffering. You know, we are hearing about all the chaos that's happening in Europe etc. So, I think the industry is woken up and the trend that we see is a much, much faster acceleration of adopting technology. So, you know, given that and in fact, there is a report that talks about an 18% CAGR of technology spend over the next four to five years in travel and hospitality. So, as a result of this digitization accelerating, if there were to be a recession, we believe it should offset some of our transactional business revenue.

Madhuchanda Dey: And the last question from my side is, what is the sweet spot of revenue where a company of your type typically sees a steady acceleration in margin? Or I mean, I'm aware that you have given a guidance of say 200 basis points, 200 to 300 basis point annual expansion, but at the same time, you are guiding towards 20, 25% in three to four years, which means that there will be an inflection point where and after which there could be a much sharper expansion in margin. So, what kind of revenue ballpark is that inflection point?

Bhanu Chopra: I mean, it's difficult to guide for an overall revenue, but if I had to take a guess, I would say it'll be close to a, you know, let's say, $100 million number. But the way I see that operating leverage and everything that you make on the top line falling to your bottom line, I see that happen based on each of our business lines more so as, you know, each business scales, we'll see that inflection point occur in each of those businesses. And some of these new product investments that we are doing, you know, it requires a separate team, separate R&D department. So, that's where, you know, a lot of our investments go in and we don't actually capitalize any of those investments. So, my belief is as each of those products and business lines scale, that's where we should see that inflection point come on and you know, my general guess would be once we start to exceed 100 million number.

Moderator: Thank you. Our next question is from the line of Pranay Roop Chatterjee from Burman Capital. Please go ahead.

Pranay Roop Chatterjee: Again, I'm slightly new to the business. So, I just wanted to understand your MarTech business a bit better given a majority of revenue is coming from there. So, if you could just throw some light on what exactly is the value proportion there? Again, I'm aware of the fundamentals. But, let's say, when you are having a discussion with a potential client during the business development process, what are the key questions that the clients ask and you know, in terms of your response, what is the competitive edge or the value add that, you know, you try to pitch to the clients? That would be my first question.

Second question, again linked to the same thing, is the traction of new client additions. Again, you have given the number for Q1. My question is, the traction that you're seeing on a monthly basis recently, is it as per expectations? Or is it above or below your expectations new clients in MarTech? And the same topic, in terms of the competition, how exactly do this digital marketing is right now by the budget that you're trying to target? And who are these if you could just throw some light on this?

Bhanu Chopra: So, I'll take the question on, you know, what is the value proposition and how do we differentiate, and then I'll let Tanmaya talk about the net customer additions. So, you know, in terms of the value proposition, what we offer in our MarTech business is really, really two things. What we are offering is, they're helping you establish your brand in the social universe, because as we all know, you know, the today's traveler is the millennial, and they're all across the social universe, and they need to be engaged. And the second is how do you use these digital platforms like Google where people are searching on price comparison websites as well as social channels, how do you bring them to your own website so that you can, you know, acquire those customers digitally?

So, our MarTech offering actually caters to those particular needs. We help a hotel engage with the customer online on social universe. So, you know, we basically send out messages around what is new at the hotel, you know, what are some of the exciting activities targeted to a particular demographic, and if there is some chatter or engagement, or there is a poor experience, you know, we also, on behalf of the hotel, will engage in response and hopefully convert a negative sentiment to a positive sentiment.

The other big thing that we do, which is actually a big part of our MarTech offering is we enable customer acquisition through these digital channels, right. So, if you're a hotel and you say, look, I have $10,000 to spend to get customers, and as we all know, the days of offline marketing are over. So, people are reluctant to use newspapers and print media but more now focused on digitally being everywhere on these different social channels as well as, you know, when, let's say, you go and search for a hotel in Mumbai, are you seeing that hotel's ads, when you go to a price comparison on Google or on Trivago, you see that hotel come up. So, what we make sure is, you know, that the hotel is present and we are maximizing the return on ad spend, let's say the $10,000 that I took as an example. So, how do you allocate between Facebook, Twitter snap, TikTok, you know, social influencers ,Google, meta search site.

So, there is a plethora of options that are available. So, what we do is, we do two things. We are able to first establish connectivity to all these platforms. These are technical types that we've already built. Two, because of a lot of the data insights that we are able to have, we are able to optimize these campaigns such that they can maximize the return on ad spend.

So, give you a couple of examples on how we differentiate. We're able to take, you know, a lot of the intelligence from our DaaS products. So, a couple of examples are, let's say, now you're planning a visit to Dubai and this hotel is, you know, we already know what kind of demand exists in Dubai through our Demand.AI product and the demand is really, really high and we believe the hotel is going to be full any which way, there's no point spending and wasting precious marketing dollars.

Similarly, we also do, you know, a competitive check on what competition is doing. So, from a relative perspective, if you are cheaper and provide better value, you could be increasing your ad spend to attract that traveler.

And then thirdly, we also do a parity check to make sure that you are offering your hotel on your own website, because I'm sure you guys have noticed this that some hotels, you know, are cheaper on different OTAs versus their own website. So, through our parity checking and parity policing, we're again able to use that input in optimizing the ad spends and the campaigns to drive a higher return on ad spend, higher return for the hotel.

Tanmaya Das: I think, in terms of a new contract or customer expansion, in Q1, they were as per the expectation. In fact, MarTechdivision is grew the most in Quarter 1. You know, to answer whether the growth is as per the expectation or not, look, we have got like 1,200 properties using both meta and social at this point of time. The TAM is so big, like if I talk about combined time of meta and social is around $4 billion, we can sell it to at least 200,000 hotels. So, we always feel that, you know, more can be done, but whatever we expected, I think the MarTech division in terms of revenue and profitability, we got that in Q1 and the traction looks good as well.

Pranay Roop Chatterjee: And anything on the competition piece like who exactly are we replacing?

Bhanu Chopra: I will just quickly answer the question on the competitors' intensity there. So, you know, we don't have really one large competitor in that field because there are point solutions that may be handle just Google, some handle just social, some handle just metasearch. So, one comprehensive provider that does all doesn't really exist. But if had to take some names, you know, they are obviously the bigger ad agencies like WPP and psPublicis that do social. You know, there are companies like Codi and Sabre and Amadeus that will handle your meta and Google, but there isn't anyone that is comprehensively connecting to all potential options like I mentioned across the social world and digital offerings and also are able to use the intelligence that we have using DaaS products. So, a comprehensive products we doesn't believe that's out there and that's why we are running.

Moderator: Thank you. We will move on to the next question from Mr. Ashish from Goldman Sachs Asset Management. Please ago ahead, sir.

Ashish: My first question was actually just to understand the customer additions in this quarter is slightly better. I think, I came across a slide in your presentation which mentioned 72 new clients started in MarTech, 64 in distribution, 65 in DaaS and then there was another data point of overall customer base increasing by around 8 customers from 2,399 to 2,407. So, if you could just help me reconcile those two data points?

Tanmaya Das: So, actually did some cleanup this quarter in terms of identifying loss making customers and profitable customers. So, because we are now in the process of pushing back all customers to come back to pre-COVID levels, and our focus has always been our enterprise customers and probably do away with a small retail customers or maybe loss-making customers. So, did some kind of a clean up there and that's how the in terms of retention that we are still at 90%, but we did in terms of head count of customers, there was some churn because we had to close down some of the customer's contracts because they are not profitable.

Ashish: And would that cleanup be something that is ongoing and will take time to maybe near competition or do you think that could be largely behind?

Tanmaya Das: In terms of average price per customer, that is going to continue to increase, but this is a exercise we will continue to do if any particular customer because everybody is now post-COVID and no relief should be given because everybody is now the demands are high and all, right? So, this is a continuous exercise that finance team does between profitable and non-profitable client. Unless it's a strategic client, if it is not making profit, then we will take a call on that. But it will be probably a continuous process.

Ashish: And my last question would be, Bhanu, on the M&A side. How should we think about the intent going forward between, let's say, looking at some of the weaker competition in the market and consolidating them versus maybe looking at completely new streams of revenues just the way you added distribution few years back and then MarTech after that?

Bhanu Chopra: I think I have talked about our vision, you know, how we want to be one integrated tech stack that enables our customers to acquire guest, retain them and have a wallet share expansion. So, all our business lines currently enable one of those goals today. So, the way we look at opportunities is really from a perspective of, you know, can this enable us to add the capability that we are looking to add in part of our product roadmap and it speeds it up.

Secondly, as you said, Ashish, there are opportunities available to consolidate and become more dominant in the areas that we operate by looking at some of our competition. So, we are doing that as well.

And third is, you know, we want to continue to maintain a dominance in the key markets of US and Europe. So, if it enables us to get deeper in certain key geographies, like in Europe with our Myhotelshop the last acquisition, they are very, very prominent in Germany, Austria and Switzerland. So, it brings us closer to our customers across the region. So, we will look at the opportunities from that lens as well. I do feel, you know, just the overall knock that the tech industries has taken and I do feel like some good opportunities are growing, but as you have noticed, we are extremely prudent in what we are willing to pay, and I am hopeful that some of this should come through given the environment in terms of valuation is also favorable to us.

Moderator: We have our next question from the line of Rishit Parikh. Please go ahead.

Rishit Parikh: Just couple of questions, Bhanu. Wanted to understand one on MarTech. I mean, let's say, if you were to look at two or three years out, how would the mix in the business look like? Will MarTech end up becoming, let's say, 60, 70% OF the business? Or is there some of the new products that you rolled out will eventually drive back distribution as well? How should we look at the next let's say two years out in terms of the business? That's one.

And second, on the cash. If you look at the cash flow conversion, right, that's been weak for quite some time or maybe it's been about 40, 50% of adjusted EBITDA, right? Could you just help us understand when I look at the subscription business, typically, the cash conversion should look better, right? So, I am just trying to understand how the cycle works?

Bhanu Chopra: Well, to your first question, we've actually done internally some projections and one of the most specific to the answer on how do I see the revenue split? Tanmaya, would you have access to that internal three-year projection that we have done?

Tanmaya Das: Yes, I think the way we estimate MarTech would be in the range of closer to 50% because we are also estimating distribution. We are really bullish about growth of distribution business as well. So, MarTech will be around 50%. I am talking about organic, like if we add more capability in other areas and all, again, that percent will reduce or diversified. On cash conversion, look, this quarter we had our annual bonuses that needed to be paid out and that, you know, otherwise, we would have had a higher conversion for that, but in terms of collections, look, we were challenged because of COVID because some of the large customers are still paying us with a 75 days DSO. But the DSO is slowly increasing. If you see my order 10% sequential growth quarter-over-quarter, but my data balance has now reduced as compared to 31st March. So, the DSO now this quarter has reduced to 70 days, which was 80 days prior and we are continuing to improve on that and I estimate in the next couple of quarters we should be below 60 days in terms of DSO and that will improve my cash conversion pretty significantly.

Rishit Parikh: So, just even in the subscription business, typically, they would come after 60 days usually. That's essentially the way to think of it?

Tanmaya Das: Yes. We have a like enterprise clientele. So, I bill them annually in advance, but that invoice payout comes after like, generally 45 days, ideally 45 days. But because of COVID, it has gone up to 90 days at the COVID time and then slowly reducing back to below 60 days in two quarters. But I am seeing a steady improvement in that every quarter.

Moderator: Thank you. Our next question is from the line of Saurabh Thadani from IIFL. Please go ahead.

Saurabh Thadani: Most of my questions have been answered. Just one question on the operating leverage. While the operating leverage is clearly visible on the employee benefit expansion on a Y-on-Y basis, the same is not reflected in the other expenses. So, could you just throw some light on what's driven the significant increase in the other expenses and do you expect this to start normalizing going forward?

Tanmaya Das: So, in Q1, we had certain our marketing and travel cost increased, We had historically certain marketing events happens in Q2, but this time they happened in Q1. So, the travel and marketing expenses were above our what it should have been, but it should normalize in subsequent quarters because they were kind of not going to happen in Q2 and Q3 or happen less so. I think the goal is to reduce the other expenses as much as possible, and we are working towards that.

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

Rahul Jain: Actually, I want to ask a question which has been asked in different form early, but let me give it a different try. So, essentially, I wanted to understand the constituent that can drive scalability to the business in the medium term? We all understand that this space has lot of penetration opportunity. We have the right product and we have the right presence. I think, what somewhere I would appreciate your thoughts is that how this business can be much larger than what it is? Because if you keep adding. small and several kind of a deal, it will become a challenge to grow at some point. That's our understanding looking at some other companies in a similar format. So, do you think that is a challenge and what are the solution to it?

And secondly, from an area of category addition which I think earlier Ashish also asked upon, we have entered in this, you know, two, three sub-segment within the Hotel Tech category, but there are many, many sub-segment avenues within those. So, is there any logical extension that we should work upon to expand the TAM, the genuine TAM for, us not the total tech TAM that we usually talk about?

Bhanu Chopra: So, you know, I think the first part of the question, I think maybe what you're saying is how big can we get, right? And you know, the answer to that is, look, you know when we talk about our overall TAM spread across all the three business units, it's significantly large and something that, you know, I have continuously pointed in our earnings calls also is while we work with all the top chains in terms of our penetration, you know, we might have a foot in the door. But in terms of ability to expand and grow in terms of both the number of hotels using us at each of these chains and all the multiple products that we have penetrating that there's a huge opportunity.

Let's not forget, you know, just to give you a sense on what has happened over the last sort of three years, there are a couple of things that have happened. One, we were hit by COVID. So, you know, irrespective of whatever good work we were doing, everything was on a halt.

And second, you know, we really expanded our capabilities that really in the last three years if you look at it, whether they were done organically or inorganically, but because prior to that, we were largely a DaaS company. So, you know, the good work of building new capabilities and taking it to the market is really beginning now and I do feel, you know, as we've indicated in our TAM and TAM assessments, it's fairly large.

The second question that you asked about, you know, what are the logical areas that we can get into? So, you know, I'll go back to the vision statement that I've been alluding to. We want to help our customers acquire guest, which is the traveler. So, something that I talked about earlier on how our MarTech offering enables that.

The second thing that we want to do is, we really want to help the guest as a traveler. When you arrive at a hotel, that experience is completely broken, right? I mean, there is a lot of friction in how you go about organizing your day, you know, fixing up your transportation, finding the right restaurant to your fit. So, there is tremendous opportunity how you engage with the traveler. So, there's already something in the works that we are doing to offer that.

And then the third is, how do you expand on the travelers' wallet share? I mean, I think the current travel industry does a very, very poor job on not really capitalizing on the captive audience, the travelers that they have, in having a piece of the action on every dollar that the traveler spends. So, both from an engagement perspective as well as wallet share expansion, we see, you know, huge opportunities to do disruptive things. And you know, those are the items that we are working on.

And I think, lastly, one other thing that we've noticed in our industry is, there are number of companies providing solutions for number of use cases. There is not one that does it all, right? You know think about Shopify. You know, it's really becoming the Shopify. So, I think that's our other big endeavor is to make sure that, you know, this whole integrated tech stack that enables our customers to acquire them, retain them and have a wallet share is one integrated tech stack. So, that, you know, is big endeavors where we are putting it all together on one platform.

Moderator: Thank you. We have a next question from the line of Karthi from Suyash Advisors. Please go ahead.

Karthi: I will limit myself to one question, but slightly broader question. In terms of the levers for profitability, can you share some thoughts on where, and what is the revenue contribution from MHS and profitability there, improvement opportunity there? And secondly, in terms of your distribution booking split, volume split that is between GDS and OTAs, and market profitability if you would kindly comment on that?

Tanmaya Das: So, in terms of economy of scale, so, obviously, as I said in my script, look, this Q1, we had a large increase in the payroll cost, primarily, not because we added a lot of head count, but because of the increment impacts and all and which is going to stay. We'll see minimal impact, a minimal increase in the rest of the quarters, whereas my revenue is going to increase at a much higher rate. So, that will expand the margins and probably guide us to whatever guidance we have given for the year.

So, the gross margins levels are kind of steady at 75% my DaaS and distribution business, you know, DaaS is around 85%, distribution is around 90%, whereas MarTech is around trending around 60%. So, because of higher growth in MarTech, because we have invested significantly in the sales and marketing, because we are seeing the traction. So, the profitability in MarTech is still at a break-even level, but I think with growth, with volume we can easily come to double digit EBITDA margin in MarTech going forward. So, yes, I think that probably answered your query, right?

Karthi: Yes. What has been Myhotelshop (MHS)'s contribution and profitability improvement there?

Tanmaya Das: MHS is at around, so when we acquired Myhotelshop (MHS), it was breaking even. Now it's around 12% EBITDA business.

Karthi: And lastly on the volume split between GDS and OTAs?

Tanmaya Das: So, our all businesses, whether we talk about distribution, MarTech or DaaS, 94% of our business is dependent upon leisure travel and 6% is dependent upon business travel, which is primarily GDSs, but within the distribution segment, I would say like 20% comes from GDSs or business travel and 80% from OTAs.

Karthi: So, not too much of scope available there for mix change to drive profitability. Is that a reasonable understanding?

Bhanu Chopra: Look, both are profitable like GDS and OTA, they both from a distribution perspective is a highly profitable business. Yes, it's leisure travel, you know, if you see all guidances and industry reports and all, leisure travel is at an all-time high and improvement of business travel is icing on the cake, basically, because we are not expecting that this year. So, if whether business travel increases or leisure travel increases it is going to drive profitability for us.

Moderator: Thank you. We have our next question from the line of Kshitij Saraf from Tusk Investments. Please go ahead.

Kshitij Saraf: So, my question is on the retention. So, we see the gross retention at 90% and the net revenue retention at 105%. Comparing that with the recurring revenues of 99% across the businesses, is it safe to assume that this difference is mainly on account of the cleanup of the large scale accounts or is there another way to read it?

Tanmaya Das: It's a combination of two, three things. Yes, cleanup also has had some impact, and also, you know, Q1 is historically a slow quarter in terms of volumes. So, that also has an impact plus also, if you see last year, when we clocked 115%, in fact, some quarters were ranging 120%, were coming from a very low base like 2021 was a pretty low base of COVID. Historically, pre-COVID levels, we used to operate around 110%. You know, Q1 always has been slow for us, and it gradually improves as sequentially as we move into the year, but it's kind of as what was expected.

Kshitij Saraf: And just one more question on the revenue front as we go forward, in terms of the volumes of bookings, would the third quarter be the peak or how do you see the bookings evolve as we go in this yearor any year in general?

Tanmaya Das: The fourth quarter will be the highest because, you know, Jan, Feb, March is where most people plan for the Summer's travel and the leisure travel bookings because our revenue comes when the booking happens, not when the travel happens, right? So, Q4 is always our the highest quarter and also most of the US companies have their start of the year as calendar year, our budgets are approved and all. So, a lot of decisions also happens in terms of new sales on new contract wins in the first quarter as well. For them, first quarter. For us, it is Q4. So, always Q4 is the highest one. The revenue is gradually increased from Q1 to Q2 to Q3 and Q4. Q3 in terms of business travel is slightly low, but the leisure travel, it compensates that. So, that's how the booking pattern goes.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question for the day. I now hand the call over to Mr. Tanmaya Das for closing comments. Over to you, sir.

Tanmaya Das: Well, thank you, and it has been a great quarter as expected. Q1, as I talked about, that is our soft quarter, and it gradually, sequentially both from the revenue and profitability perspective will improve and we are pretty confident of the guidance that was given in Q4, we will be able to meet that. Thank you very much for attending and taking time out. All the best.

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