

Attractive Acquisition Deepens Tech Moat and Business Scale

- Rategain announced asset-purchase based acquisition of U.S based Adara Inc., a DaaS & Martech company for a total consideration of \$16.1mn, including \$1.5mn earn-out. Deal is valued at an attractive at 0.65x of TTM'Sept'22 Rev at Rs.2Bn Adara Inc. is EBITDA break even at this point.
- Adara Inc. is a leading travel data platforms, with access to permissioned as well as actionable travel intent data, sourced from 270+ partners, incl. large travel & hospitality entities, and drive better marketing ROI for clients.
- Adara under RG leadership is expected to grow at 15% in FY24 and achieve 15% EBITDA margins. Deal would add revenue growth of 6%/23% for FY23E/FY24E respectively. Deal would be EPS dilutive by 5% for FY23E, but accretive by 12% for FY24.
- Adara's acquisition reflects right alignment of Rategain's vision to be a leading Revenue maximization SaaS platform solving discrete needs of the customer. Maintain Buy rating with a DCF based TP of Rs. 400 (implies 34x FY25E EPS).

Financial Performance and Deal Contours

Adara's FY22 as well as TTM'Sept-22 Rev. stood Rs. 2Bn, with equally split between DaaS and MarTech (Media) segments, with blended gross margin of 80%.

Combined Entity Guidance Provides Comfort

Rategain expects combined entity to have Rev. of Rs 8,750-9,000mn with 17-18% EBITDA margin. Presently, Adara is EBITDA breakeven, and management aims to raise EBITDA margin to 10% over next 90 days and to 15% for FY24E. Organic biz expected to grow at 28%, while Adara expected to grow 15% in FY24E.

Focus on Regaining Customers from Pre-COVID

Adara's sales fell from \$100mn in FY20 to \$27mn in FY22, due to COVID impact, resulting in a cycle of customer loss, cash flow stress, and employee retention challenge. Rategain now aims to win-back lost customers with new offerings and combined GTM strategy

FINANCIALS (Rs Mn)

Particulars	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,508	3,666	5,485	8,820	10,848
Growth(%)	(37.1)	46.2	49.6	60.8	23.0
EBITDA	62	306	718	1,362	1,867
OPM(%)	2.5	8.3	13.1	15.4	17.2
PAT	(286)	75	471	862	1,264
Growth(%)	(61.3)	(126.2)	529.6	83.2	46.7
EPS(Rs.)	(3.1)	0.7	4.4	8.0	11.7
Growth(%)	(62.9)	(122.3)	532.4	83.2	46.7
PER(x)	(95.5)	428.2	67.7	37.0	25.2
ROANW(%)	(14.9)	1.9	7.3	12.2	15.5
ROACE(%)	(6.8)	3.0	7.6	12.4	15.7

CMP	Rs 295
Target / Upside	Rs 400 / 36%
NIFTY	18,233

Script Details

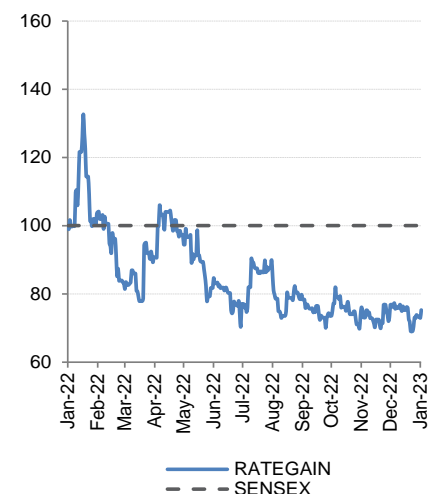
Equity / FV	Rs 109mn / Rs 1
Market Cap	Rs 32bn
	USD 383.8mn
52-week High/Low	Rs 525/ 235
Avg. Volume (no)	493,555
Bloom Code	RATEGAIN IN

Price Performance	1M	3M	12M
Absolute (%)	(4)	8	(21)
Rel to NIFTY (%)	(2)	0	(25)

Shareholding Pattern

	Jun'22	Sept'22	Dec'22
Promoters	55.9	55.9	55.9
MF/Banks/FIs	8.1	8.1	8.1
FIIIs	8.5	8.5	8.5
Public / Others	27.5	27.5	27.5

RATEGAIN Relative to SENSEX



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Change in Estimates

Acquisition of Adara Inc.'s assets is a significant development for Rategain. Accounting for acquired assets and management guidance, we raise Revenue growth estimates by 6.2%/33.1%/28.3% for FY23E/FY24E/FY25E. Expect integration and higher depreciation to negatively impact OPM by 63bps/24bps/107bps for FY23E/FY24E/FY25E. We revise overall earnings growth by -4.5%/ 11.8%/11.2% for FY23E/FY24E/FY25E.

Exhibit 1: Change in Estimates

Particulars (Rs. Mn)	FY22	FY23E			FY24E			FY25E		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
INR Revenue	3,666	5,164	5,485	6.2	6,625	8,820	33.1	8,453	10,848	28.3
YoY growth (%)	46.2	40.9	49.6	876 bps	28.3	60.8	3250 bps	27.6	23.0	(459 bps)
EBIT	5	356	343	(3.5)	776	1,012	30.4	1,270	1,515	19.2
EBIT margin (%)	0.1	6.9	6.3	(63 bps)	11.7	11.5	(24 bps)	15.0	14.0	(107 bps)
PAT	84	493	471	(4.5)	771	862	11.8	1,138	1,264	11.2
EPS (Rs)	0.8	4.6	4.4	(4.5)	7.1	8.0	11.8	10.5	11.7	11.2

Source: DART

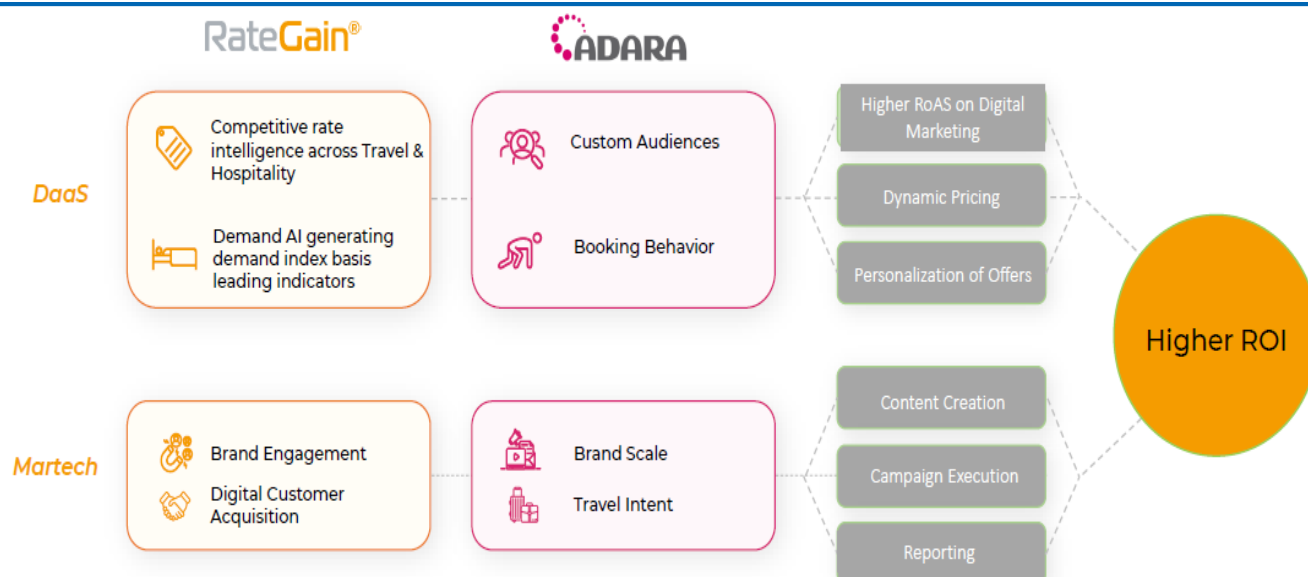
Acquisition Con-call KTAs

- **Background:** Adara was founded in 2009 in Palo Alto, U.S, and has Global presence in UK, Dubai, Japan, France. Adara is led by Charles Mi (Co-Founder and CEO), and other key senior members with prior experience at Delta Airlines, Adobe, Deutsche Bank, Starcom Media Agency, DMOs (Destination Marketing Organization), etc., will be joining Rategain. Customer base incl. ~270+ Enterprises incl. Hotels, Airlines, DMOs, Agencies etc.
- **COVID Impacted Revenue:** Adara's TTM Sept'22 Revenue stood at Rs. 2Bn. Past 3 year revenue performance for FY22, FY21, and FY20 stood at Rs. 2Bn, Rs. 1.6Bn and Rs. 7.3Bn respectively. COVID impact has led to a cycle of customer loss in Travel, Hospitality and Tourism segments, and this top-line impact led to challenges in employee retention. Even post easing of COVID induced impact, cash flow issues persisted, leading to challenges in re-hiring and winning back lost customers. Flat TTM Sept-22 Revenue of Rs.2Bn is also largely attributed to cash flow issues at Adara.
- **Guidance:** For FY24, management expects combined entity to deliver Revenue of Rs. 8,750-9,000mn, with EBITDA margin ranging from 17-18%. Acquisition is expected to be completed in next 1 month (Feb-2023), and management expects Adara EBITDA margins to reach 10% in Q4FY23, from present Break Even levels, and 15% EBITDA margin for FY24 overall.
- **Segment Details:** Adara has 2 segments: a) Data, and b) Media (with 50% Rev. split each), and gross margins of 91% and 69% respectively, implying blended gross margin of 80%. **Data segment** includes SaaS platform (DaaS or Data as a Service) SaaS based data application that provides Custom Segment Audience data based on travel intent. **Media segment** comprises of full service performance media operation for Programmatic Advertising leveraging data backbone. 67% of Adara's Revenues arise from North America region.

- **Strategic Rationale:** Rategain's rationale for Adara acquisition includes: **1) Aligned Vision:** Building an integrated RevMax platform for customer acquisition and wallet share expansion, **2) Boost Existing DaaS (26% of Rev) and MarTech (39% of Rev):** Creating a large travel intent data platform to provide superior Return on Ad Spend (RoAS) for campaigns, **3) Compliant Data:** Adara' travel intent data is compliant and future proof with a large enterprise customer base that overlaps with RateGain, **4) Multiple Data Partners:** 70+ data partners provide for a strong moat for the business; **5) Cross-Sell Up-Sell Opportunity:** Expansion into adjacent verticals like DMOs and ability to deepen relationships with Hotels, Airlines & Car Rentals, **6) Cost Synergies:** Leverage India DevCenter for data/product/tech teams, along with reduced overheads from shared Corporate functions.
- **Employees:** As of Sept-22, Adara had 55 total employees (42 in US, 7 in Europe and 6 ROW. Peak count was 200.
- **No Liability Risk:** As nature of acquisition is **an asset purchase**, there is no liability (current or future) on Rategain.
- **Deal payouts:** Deal includes upfront payment of Rs.1.2bn, while balance Rs. 124mn will be paid prior to Dec 31, 2023.

Key Slides from Presentation

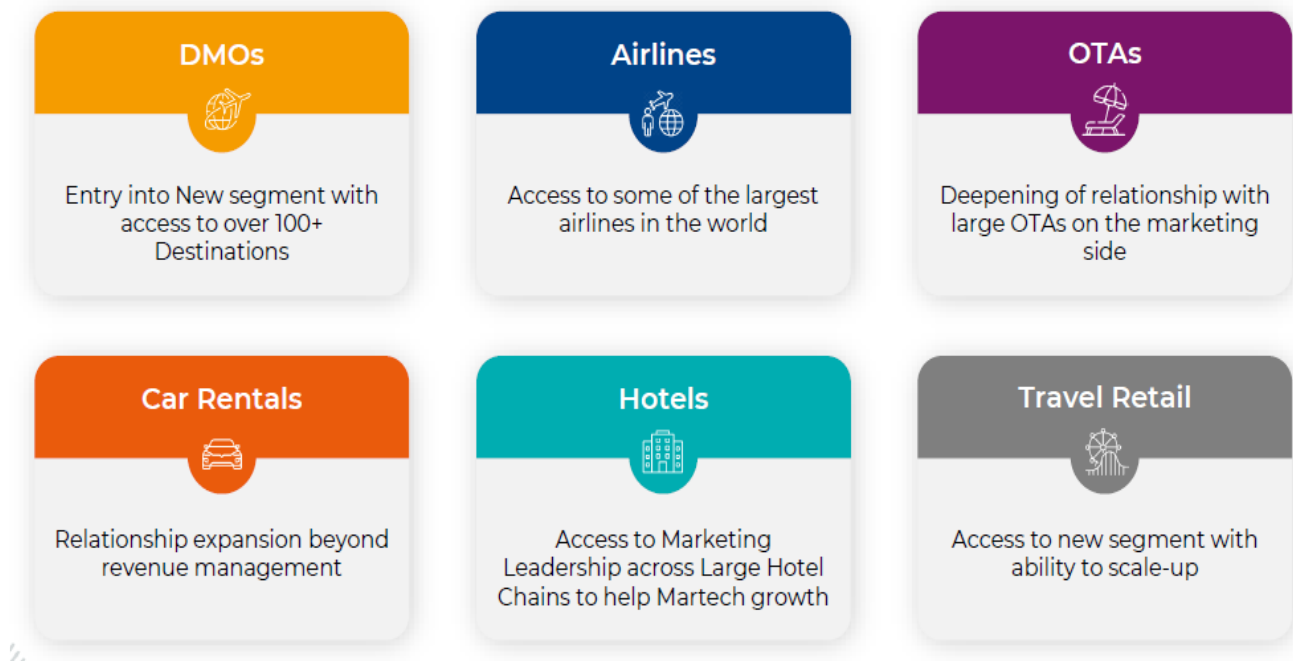
Exhibit 2: Adara Complementing Rategain's DaaS and MarTech Segments



Source: Company

Adara's asset acquisition would complement DaaS and Martech segments, by adding another layer of intelligence, in form of **booking behavior** and **travel intent**, and thereby deliver better Return on Ad Spends (RoAS) to clients.

Exhibit 3: Adara Adds DMO & Travel Retail and Strengthen Existing Verticals



Source: Company

Adara's acquisition also adds DMOs (Destination Marketing Organizations) and Travel Retail as additional Customer segment. **DMOs** promote a location as an attractive travel destination, e.g. Visit Florida, Wisconsin Department of Tourism, Visit Baltimore, etc. **Travel Retail** refers to a sales channel provided in travel environments. E.g. Duty Free shops.

Valuation

Rategain continues to be favorably placed in benefiting from revival in travel, tourism and hospitality demand. Quality of offerings, improved pipeline and net customer addition bode well for Rategain. Growth acceleration along with margin expansion raises our confidence in improving acceptance of company's solutions. We value Rategain at 34x on FY25E Earnings of Rs11.7. Maintain Buy rating with a DCF based TP of Rs400 (implies 34x FY25E EPS)

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
Revenue	3,666	5,485	8,820	10,848
Total Expense	3,360	4,767	7,458	8,981
COGS	1,914	2,582	4,034	4,877
Employees Cost	0	0	0	0
Other expenses	1,447	2,185	3,424	4,105
EBIDTA	306	718	1,362	1,867
Depreciation	301	375	350	352
EBIT	5	343	1,012	1,515
Interest	52	14	11	11
Other Income	165	247	133	160
Exc. / E.O. items	9	0	0	0
EBT	108	577	1,134	1,664
Tax	24	107	272	399
RPAT	84	471	862	1,264
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	75	471	862	1,264

Balance Sheet

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
Sources of Funds				
Equity Capital	107	109	109	109
Minority Interest	0	0	0	0
Reserves & Surplus	6,084	6,555	7,417	8,681
Net Worth	6,192	6,663	7,525	8,790
Total Debt	0	0	0	0
Net Deferred Tax Liability	(42)	(47)	(52)	(52)
Total Capital Employed	6,149	6,616	7,473	8,738

Applications of Funds

Net Block	2,225	3,280	3,623	3,726
CWIP	0	0	0	0
Investments	3,528	2,578	2,378	2,478
Current Assets, Loans & Advances	2,016	2,602	3,952	5,427
Inventories	0	0	0	0
Receivables	941	1,368	2,175	2,645
Cash and Bank Balances	341	421	825	1,743
Loans and Advances	5	5	5	5
Other Current Assets	729	810	948	1,034
Less: Current Liabilities & Provisions	1,619	1,844	2,480	2,894
Payables	418	535	797	960
Other Current Liabilities	1,201	1,309	1,683	1,934
<i>sub total</i>				
Net Current Assets	397	758	1,472	2,534
Total Assets	6,149	6,616	7,473	8,738

E – Estimates

Important Ratios

Particulars	FY22A	FY23E	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	47.8	52.9	54.3	55.0
EBIDTA Margin	8.3	13.1	15.4	17.2
EBIT Margin	0.1	6.3	11.5	14.0
Tax rate	22.3	18.5	24.0	24.0
Net Profit Margin	2.3	8.6	9.8	11.7
(B) As Percentage of Net Sales (%)				
COGS	52.2	47.1	45.7	45.0
Employee	0.0	0.0	0.0	0.0
Other	39.5	39.8	38.8	37.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	0.1	25.4	93.5	139.9
Inventory days	0	0	0	0
Debtors days	94	91	90	89
Average Cost of Debt	9.4			
Payable days	42	36	33	32
Working Capital days	39	50	61	85
FA T/O	1.6	1.7	2.4	2.9
(D) Measures of Investment				
AEPS (Rs)	0.7	4.4	8.0	11.7
CEPS (Rs)	3.5	7.8	11.2	15.0
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	57.1	61.7	69.7	81.4
RoANW (%)	1.9	7.3	12.2	15.5
RoACE (%)	3.0	7.6	12.4	15.7
RoAIC (%)	0.1	5.7	15.8	22.2
(E) Valuation Ratios				
CMP (Rs)	295	295	295	295
P/E	428.2	67.7	37.0	25.2
Mcap (Rs Mn)	31,862	31,862	31,862	31,862
MCap/ Sales	8.7	5.8	3.6	2.9
EV	31,521	31,442	31,038	30,119
EV/Sales	8.6	5.7	3.5	2.8
EV/EBITDA	103.2	43.8	22.8	16.1
P/BV	5.2	4.8	4.2	3.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	46.2	49.6	60.8	23.0
EBITDA	396.1	135.1	89.6	37.1
EBIT	(101.7)	6895.5	194.5	49.7
PBT	(144.0)	432.7	96.5	46.7
APAT	(126.2)	529.6	83.2	46.7
EPS	(122.3)	532.4	83.2	46.7

E – Estimates

Cash Flow

Particulars	FY22A	FY23E	FY24E	FY25E
Profit before tax	108	577	1,134	1,664
Depreciation & w.o.	301	375	350	352
Net Interest Exp	1	(234)	(123)	(149)
Direct taxes paid	(33)	(107)	(272)	(399)
Change in Working Capital	(342)	(287)	(314)	(143)
Non Cash	134	0	0	0
(A) CF from Operating Activities	168	324	775	1,324
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(1,835)	(1,430)	(693)	(455)
Free Cash Flow	(1,667)	(1,106)	82	869
(Inc.)/ Dec. in Investments	29	950	200	(100)
Other	(1,145)	247	133	160
(B) CF from Investing Activities	(2,951)	(233)	(360)	(395)
Issue of Equity/ Preference	3,782	1	0	0
Inc./(Dec.) in Debt	(1,126)	0	0	0
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Other	(257)	(14)	(11)	(11)
(C) CF from Financing	2,399	(12)	(11)	(11)
Net Change in Cash	(197)	80	404	918
Opening Cash balances	538	341	420	825
Closing Cash balances	341	420	825	1,743

E – Estimates

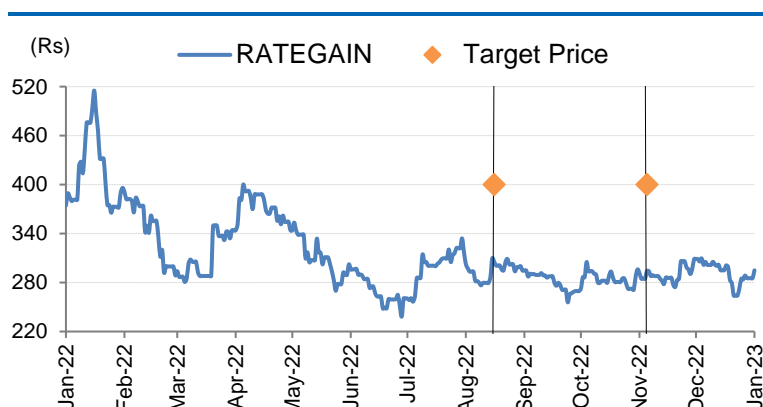
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-22	Buy	400	306
Nov-22	BUY	400	294

**Price as on recommendation date*

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