



Company Overview

TBO Tek Ltd. stands as a pivotal aggregator within the travel industry, bridging the gap between over 750 airlines and approximately 1 million hotels worldwide, and an extensive network of buyers comprising travel agencies and independent travel advisors. Its modular approach, offering tailored solutions to meet specific needs, coupled with an asset-light model, underscores its scalability and potential for launching innovative solutions, thereby fostering a network effect. This platform has witnessed robust growth, with a remarkable 24.7% revenue and 43.7% EBITDA CAGR over the period spanning FY2019-23. At its core, TBO Tek addresses the challenges of discovery, reliability, transactions, and service in the travel sector by consolidating global travel supply and demand onto a single platform. The company's platform facilitates seamless transactions between buyers and suppliers, overcoming the inherent fragmentation prevalent in both segments of the travel market. This fragmentation extends beyond hotels and airlines to ancillary services such as car transfers and sightseeing, further accentuating the need for a unified platform. Similarly, on the buyer side, there are ~1.5-2 million estimated buyers (travel agencies, independent travel advisors, etc) to whom customers reach out depending upon their needs.

TBO Tek operates as a synergistic enabler rather than a disruptor for travel suppliers and buyers. Airlines and hotels perceive the company as an extended distribution arm, aiding their expansion into smaller but fast-growing markets rather than posing as competition. Meanwhile, the platform empowers travel agents to digitize their operations, enhance inventory visibility and enable access to deals on par with larger entities. In a landscape characterized by persisting market fragmentation and increasing market friction, TBO Tek emerges as a vital solution provider, driving efficiency and connectivity within the global travel ecosystem.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Strengthening of the platform by adding new buyers and suppliers;
- ⇒ Leveraging data procured to offer bespoke travel solutions to our Buyers and Suppliers;
- ⇒ Unidentified inorganic acquisitions and general corporate purposes.

Investment Rationale

Synergistic growth enabled by scalable technology platform

TBO Tek's platform operates as a dynamic ecosystem, fostering synergistic relationships between suppliers and buyers through interlinked flywheels. The first flywheel, powered by network effects, leverages the platform's global partner network to attract both buyers and suppliers. As the buyer base expands, it catalyzes additional demand, leading to a surge in transactions and the attraction of more suppliers. This influx of suppliers enhances product offerings, improves pricing, and increases supply volume, thereby further enticing buyers to join the platform. This positive feedback loop accelerates transaction growth, outpacing the rate of buyer acquisition and continuously expanding the partner base across diverse markets and product categories.

Simultaneously, the second flywheel, driven by data insights, fuels learning effects that optimize the platform and deepen relationships with partners. Through sophisticated data analytics, the platform refines search results, customizes offerings, and provides optimal pricing, thereby enhancing the platform experience for both buyers and suppliers. These improvements foster greater engagement and relevance for buyers, leading to increased transaction rates and the expansion of product offerings. As buyers transact across multiple products, the platform's value proposition grows, attracting further interest and participation.

Moreover, TBO Tek Ltd's modular and scalable proprietary technology platform adds a layer of agility and adaptability, enabling the swift addition of new lines of business, markets, and travel products. This modular design facilitates the development and launch of tailored solutions, leveraging core capabilities to quickly penetrate new markets with minimal investment. The platform's scalability is further exemplified by its global expansion playbook, which has successfully penetrated markets in the Middle East, Latin America, and APAC regions. The platform's ability to rapidly scale and adapt to diverse market needs positions TBO Tek as a leader in the travel and tourism industry, with a competitive edge over new entrants who may face greater challenges in replicating its capabilities.

Issue Details

| | |
|----------------------------------|---|
| Offer Period | 08 th May 2024 - 10 th May 2024 |
| Price Band | Rs. 875 to Rs. 920 |
| Bid Lot | 16 |
| Listing | BSE & NSE |
| Issue Size (no. of shares in mn) | 16.8 |
| Issue Size (Rs. in bn) | 15.5 |
| Face Value (Rs.) | 1 |

Issue Structure

| | |
|--------|-----|
| QIB | 75% |
| NIB | 15% |
| Retail | 10% |

| | |
|------|---|
| BRLM | Axis Capital Ltd., Jefferies India Ltd., Goldman Sachs Pvt. Ltd., JM Financial Ltd. |
|------|---|

| | |
|-----------|------------------------|
| Registrar | Kfin Technologies Ltd. |
|-----------|------------------------|

| Particulars | Pre Issue % | Post Issue % |
|-----------------------------|---------------|---------------|
| Promoter and Promoter group | 51.3 | 46.3 |
| Public | 48.7 | 53.7 |
| Total | 100.00 | 100.00 |

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

TBO Tek Ltd.

Harnessing data for strategic growth and operational excellence

With a keen focus on harnessing the power of data, TBO Tek has developed a robust infrastructure, including an enterprise-wide data warehouse, to capture, curate, and analyze vast volumes of information. TBO Tek's data flywheel generates invaluable insights that fuel operational enhancements and deepen relationships with partners. By analyzing user behaviour, search patterns, and transactional data, the company gains a profound understanding of user preferences and market trends. This helps in searches translating to bookings, which lead to high cross-selling and upselling opportunities (buyer booking of those using >1 product increasing from ~21% in FY21 to ~58.5% in FY23). This leads to buyer retention with increasing wallet-share (retention at ~37.2% in year 6 after on boarding and GTV increasing to 5.29x of year 1 GTV), transaction growth and reducing cost of serving new transactions on technology automation, thereby enabling to generate high operating leverage. The high operating leverage reflects in EBITDA, which registered a CAGR of ~43.7% over FY2019-23 period with margins reaching from ~9.7% to 17.1% over the same period and ~19.4% in Q1 FY24. This iterative learning and improvement process creates a more engaging platform experience, driving increased transactions and further reinforcing the network effect. Beyond operational enhancements, TBO Tek monetizes its data assets by refining the platform for partners and integrating additional insights. For instance, the platform's search algorithms are tailored to display results based on traveller profiles and nationality, facilitating informed decision-making for buyers. Furthermore, data-driven decision-making permeates across all levels of the organization, empowering teams with actionable insights for sales forecasting, dynamic pricing, and marketing analytics. This democratization of data fosters agility, innovation, and a culture of continuous improvement within the company.

Moreover, the company's capital-efficient business model and sustainable growth underscore its financial resilience and operational effectiveness. TBO Tek's impressive trajectory of adjusted EBITDA, growing from Rs. 22.7 crores in Fiscal 2021 to Rs. 199 crores in Fiscal 2023, reflects its ability to generate strong cash flows and deliver shareholder value. Additionally, TBO Tek exhibits strategic acumen in acquiring complementary travel assets, such as Island Hopper and BookaBed, to bolster its partner network and enhance capabilities in key markets like the Maldives, the UK, and Ireland. These targeted acquisitions strengthen TBO Tek's market position and unlock synergies and growth opportunities across its ecosystem.

Valuation

TBO Tek presents a compelling investment opportunity, buoyed by a host of qualitative advantages and robust financial performance indicators. The company's extensive data reservoir and adeptness in monetizing this invaluable asset position it strategically for future growth and innovation. Leveraging its capital-efficient business model, TBO Tek has consistently delivered strong returns on equity and assets, signaling operational excellence and financial prudence. Notably, its focus on the B2B scalable platform business provides the company an edge in catering to high-value clients, fostering deeper relationships, and driving sustained growth. Over the past three years, TBO Tek has witnessed remarkable revenue growth, with FY23 revenues soaring nearly 650% over FY21, complemented by a remarkable net margin of 13.95% in the latest year. The company's turnaround from losses in FY21 to substantial net profit in FY23 underscores its resilience and adaptability in navigating market dynamics. Impressively, the return on equity (ROE) stands at an attractive 44.04%, while the return on assets (ROA) is a commendable 5.81%, reflecting efficient capital utilization and value creation for shareholders. Despite a relatively low asset turnover, TBO Tek's focus on margin optimization has been instrumental in sustaining profitability and driving operational efficiency.

From a valuation perspective, while the initial P/E ratio of 65x may appear elevated, it aligns with industry standards for digital e-commerce platform businesses. However, the extrapolated FY24E EPS indicates a more reasonable P/E ratio of 45x. The company's ability to maintain high growth and profitability, coupled with its fine-tuned business model, instils confidence in its long-term prospects. As TBO Tek continues to monetize its digital platform and capitalize on emerging opportunities, the company is poised to emerge as a formidable player in the digital commerce landscape. We, therefore, recommend a SUBSCRIBE rating for the issue.



TBO Tek Ltd.

Income Statement (Rs. in millions)

| Particulars | FY21 | FY22 | FY23 | 9MFY24 |
|--|--------------|--------------|---------------|---------------|
| Revenue | | | | |
| Revenue from Operations | 1,418 | 4,833 | 10,646 | 10,238 |
| Total Revenue | 1,418 | 4,833 | 10,646 | 10,238 |
| Expenses | | | | |
| Service fees | 360 | 1,585 | 3,319 | 3,526 |
| Share issue expenses | 0 | 51 | 120 | 17 |
| Net impairment losses on financial assets including trade receivable | 67 | 39 | 93 | 71 |
| Employee benefit expenses | 596 | 1,331 | 2,284 | 1,987 |
| Other expenses | 623 | 1,506 | 3,010 | 2,710 |
| Total Operating Expenses | 1,645 | 4,512 | 8,827 | 8,311 |
| EBITDA | -227 | 320 | 1,819 | 1,927 |
| Depreciation and Amortization expenses | 111 | 157 | 246 | 212 |
| Other income | 347 | 287 | 212 | 158 |
| EBIT | 9 | 450 | 1,785 | 1,874 |
| Finance costs | 12 | 35 | 72 | 65 |
| Exceptional Item | -293 | 46 | 28 | -72 |
| PBT | -295 | 460 | 1,742 | 1,736 |
| Current tax | 62 | 154 | 305 | 219 |
| Deferred Tax charge/ (credit) | -16 | -30 | -48 | -24 |
| Total tax | 46 | 123 | 257 | 194 |
| PAT | -341 | 337 | 1,485 | 1,542 |
| Diluted EPS | -3.3 | 3.3 | 14.1 | 15.2 |

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

| Particulars | FY21 | FY22 | FY23 | 9MFY24 |
|---|--------------|--------------|--------------|--------------|
| Cash Flow from operating activities | 506 | 1,983 | 2,374 | 418 |
| Cash flow from investing activities | -266 | -306 | -1,062 | -1,267 |
| Cash flow from financing activities | -54 | -157 | -141 | -117 |
| Net increase/(decrease) in cash and cash equivalents | 186 | 1,520 | 1,172 | -967 |
| Cash and cash equivalents at the beginning of the period | 2,522 | 2,691 | 4,249 | 5,634 |
| Cash and cash equivalents at the end of the period | 2,708 | 4,211 | 5,421 | 4,667 |

Source: RHP, BP Equities Research



TBO Tek Ltd.

Balance Sheet (Rs. in millions)

| Particulars | FY21 | FY22 | FY23 | 9MFY24 |
|-------------------------------------|--------------|---------------|---------------|---------------|
| Equity and Liabilities | | | | |
| Equity Share Capital | 19 | 104 | 104 | 104 |
| Other Equity | 2,022 | 2,215 | 3,268 | 4,908 |
| Total Equity | 2,041 | 2,319 | 3,372 | 5,012 |
| Non-Current Liabilities | | | | |
| Financial Liabilities | | | | |
| (i) Borrowings | 0 | 27 | 56 | 29 |
| (ii) Lease Liabilities | 50 | 564 | 592 | 708 |
| (iii) Other financial liabilities | 0 | 0 | 4 | 409 |
| Employee benefit obligations | 76 | 84 | 109 | 138 |
| Deferred tax liabilities (net) | 53 | 0 | 0 | 23 |
| Current Liabilities | | | | |
| Financial Liabilities | | | | |
| (i) Lease Liabilities | 35 | 43 | 58 | 67 |
| (ii) Trade Payable | 1,732 | 7,273 | 18,030 | 27,221 |
| (iii) Other financial liabilities | 885 | 853 | 813 | 1,286 |
| Employee benefit obligations | 42 | 65 | 94 | 114 |
| Provisions | 761 | 1,315 | 2,017 | 2,136 |
| Other current liabilities | 87 | 171 | 462 | 396 |
| Total Current Liabilities | 3,542 | 9,720 | 21,474 | 31,220 |
| Total liabilities | 3,721 | 10,395 | 22,234 | 32,528 |
| Total Equity and Liabilities | 5,762 | 12,714 | 25,606 | 37,540 |
| Assets | | | | |
| Non-Current Assets | | | | |
| Property, plant and equipment | 20 | 61 | 96 | 88 |
| Capital work in Progress | 1 | 2 | 0 | 35 |
| Other intangible assets | 217 | 223 | 289 | 1,999 |
| Goodwill | 0 | 33 | 361 | 900 |
| Right of use asset | 75 | 605 | 612 | 697 |
| Financial Assets | | | | |
| (i) Investments | 0 | 0 | 0 | 0 |
| (i) Loans & advances | 0 | 30 | 0 | 20 |
| (ii) Other financial assets | 62 | 22 | 31 | 40 |
| Deferred tax assets (net) | 37 | 69 | 118 | 145 |
| Other non current assets | 0 | 0 | 10 | 7 |
| Total Non current assets | 413 | 1,045 | 1,519 | 3,930 |
| Current Assets | | | | |
| Investments | 0 | 0 | 0 | 0 |
| Financial Assets | | | | |
| (i) Investments | 1 | 1 | 2 | 0 |
| (ii) Trade Receivables | 1,202 | 5,311 | 15,662 | 26,087 |
| (iii) Cash and cash equivalents | 2,691 | 4,249 | 5,634 | 4,664 |
| (iv) Other Bank Balance | 633 | 794 | 979 | 790 |
| (v) Loans | 12 | 22 | 14 | 11 |
| (vi) Other Current Financial Assets | 308 | 566 | 610 | 670 |
| Other current assets | 502 | 727 | 1,187 | 1,388 |
| Total Current Assets | 5,349 | 11,670 | 24,088 | 33,610 |
| Total Assets | 5,762 | 12,714 | 25,606 | 37,540 |

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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