

Yatra Fiscal 1Q19 Earnings Call Prepared Remarks

Manish Hemrajani: Thank you Abby, Good morning everyone. Welcome to Yatra's Fiscal First Quarter 2019 Earnings conference call for the period ended June 30th 2018. I'm pleased to be joined on the call today by Yatra CEO and Co-Founder Dhruv Shringi and CFO Alok Vaish.

The following discussion, including responses to your questions, reflects management's views as of today, August 17, 2018. We do not undertake any obligation to update or revise the information.

As always, some of the statements made on today's call are forward-looking, typically preceded by words such as we expect, we believe, we anticipate or similar statements. Please refer to company's filings with the SEC for information about factors, which could cause our actual results to differ materially from these forward-looking statements.

Additional information concerning these statements is contained in the Risk Factors section of the Company's Annual Report on Form 20-F filed with the SEC on July 31, 2018. Copies of this and other filings are available from the SEC and on the investor relations section of our website.

With that, let me turn the call over to Dhruv.

Dhruv Shringi: Thank you, Manish and Good Morning everyone. I am pleased to report that we have started Fiscal 2019 on a strong note.

We are seeing the power of our multi-channel approach and the efficiencies we can gain as our brand recognition grows. We believe that our unique strategy of segmenting customers between business

and leisure travel is powerful. It enables us to better capture the higher spend and loyalty of business travelers, while separately serving the more cost-conscious and opportunistic leisure travelers. We believe we are very well positioned to capitalize on India's rapidly expanding travel industry.

The multi-channel approach drove our top line, with Adjusted Revenue up 24.8%. Operating efficiency is driving cost savings, enabling us to reduce our adjusted EBITDA loss by a third. Most importantly, we can dial back consumer promotions and other brand-building spends on the back of our high brand recall. Marketing expense was around 50% of Adjusted Revenue, a meaningful reduction versus last year. Furthermore, the integration of ATB is on track and we are beginning to realize the initial cost synergies, the full impact of which will be reflected in the subsequent quarters. I also want to highlight that we have made a reporting change this quarter as it relates to IFRS 15. We have replaced our Revenue less service costs line item with Adjusted revenue. Adjusted Revenue, is broadly similar to the earlier Revenue less Service Cost or Net Revenue number and represents revenue and other income after deducting service costs and adding back expenses related to consumer promotions and loyalty program costs that have been reduced from revenue due to the adoption of new accounting standard, IFRS 15, effective from April 1, 2018. This allows us to continue reporting on a like for like basis.

On a pro-forma basis when accounting for IFRS 15, I am delighted to share that our Adjusted Revenue growth is 53.6% YoY which clearly shows the improvement in efficiency of our consumer promotions and our marketing spends.

Let me now review key operating highlights of the quarter. I'll touch on the general macro environment, then review air, hotel, corporate travel, and some of our other initiatives in marketing and technology.

We believe the aviation macro trends will remain favorable over the long term, due to low aircraft penetration and government impetus.

Growth in air travel should be sustainable due to an expanding number of Airports and meaningful growth in fleet sizes by domestic carriers. The immediate aviation environment was strong too, with domestic air traffic up 20% YoY in the June quarter. Our own air ticketing transactions were up 26.3%,

There are, however, a few recent macro trends like rising oil prices and the depreciation of the rupee versus the dollar which are pressuring airline profitability - this could result in airlines raising airfares which may negatively impact the more price sensitive leisure traffic.

However, as stated in the past, we do believe that the business travel demand in India is less price sensitive and we do expect the business travel industry to continue to witness healthy demand on the back of a strong overall macro environment in India. As the leading player in the business travel segment, we believe that we are strongly positioned to continue to capitalize on this trend. These near-term headwinds do not in any way reduce our confidence in the long-term outlook of the Indian aviation industry.

Drilling down, Gross Bookings from our Air ticketing business grew a solid 40.2% in the first quarter. Adjusted revenue posted growth of 18.0%, largely on account of lower air take rates of 5.2% as a result of a higher corporate business mix and higher air fares. This lower take rate, however, does not have any negative impact on our operating profitability given the lower cost structure on the corporate travel side. This change in mix and our continued optimization of consumer promotions also resulted in a Proforma IFRS 15 adjusted YoY Revenue growth rate of 38.4%.

Now let's turn to hotels.

We continue to be the leading platform for domestic hotels and home-stay options as we added over 3000 properties on our platform in the quarter taking our inventory to a market leading 95,000 properties. Our Hotel and Packages business grew at 20.5% rate on an Adjusted Revenue basis with Gross bookings growth of 21.2%. Standalone

hotel room nights booked were up 23.5%. We are now just starting to see the cross-sell benefits in our Corporate business and we expect to see further progress along that front as we continue to migrate legacy ATB corporate customers on to the Yatra platform the first set of which will go live towards the end of fiscal Q2.

Our SMART hotel program also continues to gain traction with over 6,000 hotels now live as part of this program under which we are ensuring a certain degree of product and service standardization for our customers backed by Yatra's service guarantee. The increase in our hotel footprint and our focus on the SMART hotels allowed us to rationalize our consumer promotions on Hotels and Packages as well, as a result of which our Proforma IFRS15 Adjusted Revenue for Hotels and Packages grew 46.9% YoY.

Let me now talk about our Corporate travel business.

In an emerging market with limited disposable income, business travel is generally the first form of travel undertaken by consumers. As such, by being the leader in business travel, we believe that we are positioned to capture some of the most attractive target group of consumers in India, as they make their first online travel purchase. Corporate travel demand also tends to be less price sensitive when it comes to fare hikes, an important characteristic when considering those near-term headwinds I mentioned earlier.

We believe we are firmly entrenched as the largest Corporate travel provider in India in terms of Gross Bookings. Corporate travel opportunity in India, in our mind, is the more exciting and larger opportunity in travel in front of us. It is projected to grow at over 12% per annum through 2020. This makes India the fastest growing corporate travel market in the world according to KPMG research.

Let me cover some recent accomplishments in our corporate segment.

We continue to strengthen our presence in the corporate travel segment and some of our key recent customer wins include the Essel Group, Tata Consulting Engineers, United Phosphorus Limited, Airtel, and Bridgestone. These organizations collectively employ over 45 thousand people. We now have well over 700 Corporate Customers using Yatra for their Corporate Travel needs.

Next, our partnership with Chrome River Technologies, a leading provider of expense management services in the US. While it is still early days, we are starting to see some traction in customers opting for a bundled product with Chrome River EXPENSE as part of an integrated travel booking and expense management solution with Yatra's Self Book platform.

Speaking of Self Book, our online self-book platform adoption continues to grow strongly. About 50% of Yatra's organic corporate business transactions are now being done on the self-book platform, up from 46% in the sequentially previous quarter. Also, we continue to successfully migrate customers from being business travelers to personal travelers. This number grew over 100% versus the same quarter last year.

Let's now turn to some other highlights of our business.

The brand campaigns that we have undertaken over the course of the last 15 months continue to deliver well for us with Direct and organic traffic up 41% versus the same quarter last year. At this point, the brand investments that we made over the past year have allowed us to significantly scale up direct traffic to our online properties. We do not think we need to maintain similar levels of investments going forward as we focus more on better conversion of the higher traffic.

In the ATB business, we expect further growth and improved operating leverage once it is fully integrated. We believe that there is an opportunity to cross sell Yatra's hotel inventory to the now combined over 700 strong corporate customer base

We recently also launched a simplified version of our corporate self book tool for SME customers and over 8,000 SME's have signed up on this platform.

Mobile traffic continues to garner the larger share of our overall traffic with 80% of our traffic during the quarter coming from mobile devices. We expect to see this trend accelerate further in the coming quarters, as the cost of mobile data in India continues to drop sharply thereby significantly expanding the market. Our organic mobile app downloads have now crossed the 15.3 Million mark as we added over 1.2 Million new installs in the quarter.

To conclude, we think that on the back of our high-brand recall and deep distribution network across India, and now our leadership position in Corporate travel, we are well positioned to strongly capitalize on this next wave of growth.

I'm now going to hand it over to Alok to walk you through the details of financial performance. Alok.

Alok Vaish: Thank you, Dhruv and hello to everyone. As Dhruv mentioned in his opening remarks, we are obviously pleased with our performance during the quarter ended June 30th 2018. Let me step you through the key financial highlights for the quarter, starting with the Income Statement.

But before I get into the details, as Dhruv mentioned earlier, I want to highlight that effective April 1, 2018, we have adopted IFRS 15 Accounting Standard that requires us to reduce certain marketing and sales promotion expenses from Revenue. We have also, starting from this quarter, changed the Non-IFRS Financial Measure "Revenue Less Service Costs" to "Adjusted Revenue". We evaluate our financial performance based on Adjusted Revenue, which represents IFRS revenue and other income after deducting service cost and adding back

the expenses in the nature of consumer promotions and loyalty program costs, which had been reduced from revenue.

Our Adjusted revenue in the quarter grew by 24.8% year-over-year to INR 2.04 billion or USD 29.8 million. We also recorded a reduction of revenue which was related to the timing and recognition of revenue required by IFRS 15. Without considering the impact of this reduction in revenue, our Adjusted Revenue would have been INR 2,063.2 million (USD 30.1 million) translating to 26.2% growth on a like for like basis. Gross air passengers booked were 2.37 million - that represents year-over-year growth of 26.3%. Standalone hotel room nights booked were 579k representing an increase of 23.5% year-over-year.

Adjusted Revenue from our Air Ticketing business increased by 18.0% to INR 1.25 Billion (USD 18.3 million) in the current quarter. This growth was driven by an increase in gross bookings by 40.2% to INR 24.3 billion (USD 0.4 billion) in the current quarter. Gross bookings growth was offset by a decline in our Net Revenue Margins to 5.2% vs 6.1% in the year ago quarter due to a change in business mix in favour of B2E business and slightly higher domestic fares. Corporate business has lower Net Revenue Margin but significantly better economics due to negligible Marketing & Sales Promotion Expenses and Payment Gateway costs. The resultant change in mix and optimization of our consumer promotions enabled us to deliver 38.4% growth in proforma IFRS 15 Adjusted Air Revenue.

For Hotels and Packages, our Adjusted Revenue for this segment was up 20.5% YoY to INR 528.1 million (USD 7.7 million) in the current quarter. This growth was due to an increase in Hotel and Packages Gross Bookings of 21.2% and continued growth in standalone hotels on the back of largest online hotel inventory in the country. Our Hotels and Packages Net Revenue Margin was 12.9%, a marginal decline from 13.0% in the YoY quarter. This growth in the Hotels and Packages business, as Dhruv mentioned earlier, has been achieved in

parallel with an improvement in our unit economics and our Proforma IFRS 15 Adjusted Revenue growth for Hotels and Packages is 46.9% for the quarter.

Other Revenue grew by 94.1% to INR 257.5 million (USD 3.7 million) from INR 132.7 million (USD 1.93 million) in the prior year quarter.

Moving on to expenses, Marketing and sales promotion expenses decreased to INR 286.5 million (USD 4.2 million) in the quarter from INR 1,153.0 million (USD 16.8 million) in the prior year quarter. Adding back the consumer promotions and loyalty program expenses – which were reduced from Revenue as per IFRS 15 – our marketing spend would have been INR1,022.3 million (USD 14.9 million), 11.3% lower than a year ago. This reflects the increasing efficiency of our marketing and sales promotion expenses on increasing gross bookings. This adjusted Marketing and Sales Promotion Expenses as a percentage of Adjusted Revenue decreased to 50.1% in the current quarter from 70.5% during the year ago corresponding quarter.

Personnel expenses increased by 8.5% to INR 786.3 million (USD 11.5 million) in the current quarter from INR 724.9 million (USD 10.6 million) last year. This increase was primarily due to consolidation of ATB partially offset by a decrease in employee share-based payment expense to INR 166.2 million (USD 2.4 million) in the current quarter from INR 271.5 million (USD 4.0 million) in the prior year quarter. Excluding the effect of ATB consolidation, our employee cost would have been lower by 7.6% - YoY

Other operating expenses increased by 25.9% to INR 803.7 million (USD 11.7 million) in the current quarter from INR 638.4 million (USD 9.3 million) in the prior year quarter. The increase is primarily on account of the impact of consolidation of ATB and increases in payment gateway expense and commission, both due to increase in business volume.

Based on these factors and operating efficiencies, Adjusted EBITDA loss was reduced by INR 203.2 million (USD 3.0 million) in the current quarter from INR 610.4 million (USD 8.9 million) in the three months ended June 30, 2017 to INR 407.2 million (USD 5.95 million) for the three months ended June 30, 2018.

Turning to Liquidity, our cash position remains strong. As of June 30, 2018, the balance of cash and cash equivalents and term deposits on our balance sheet was INR 5.9 billion or approximately USD 86.0 million.

Now let me conclude with guidance. As Dhruv noted, we remain bullish on the Indian macro environment. We see solid growth potential in air and hotels industry and believe we are uniquely positioned with our strong presence and market leadership in the Corporate Travel. For FY19 we anticipate over 20% growth in Adjusted Revenue with a meaningful improvement in our Adjusted EBITDA loss for FY19 on the back of efficiency in marketing spends and leverage in operating cost.

This concludes our prepared remarks, and we can now open it up for Q&A.