May 18, 2017

Accelya Kale Solutions Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Total long-term/short-term fund based limits	1.5	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
*Total long-term/short-term fund based /non-fund based limits	8.5	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
LT/ST scale non-fund based limits	6.7	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
Short term, fund based facilities	1.3	[ICRA]A1+ reaffirmed

*Instrument details are provided in Annexure-1

Interchangeable between CC and EPC/EBD and CEL to the extent of Rs.8.5 crore

Rating action

ICRA has reaffirmed the ratings for the Rs. 6.7 crore[1] long-term/short-term non-fund based limits, the Rs. 8.5 crore long-term/short-term, non-fund based/fund based facilities and the Rs. 1.5 crore long-term/short-term fund-based limits of Accelya Kale Solutions Limited (Kale) at [ICRA]A+ (pronounced ICRA A plus) and [ICRA]A1+(pronounced ICRA A one plus)[2]. The rating for the Rs. 1.3 crore short-term fund-based facilities has also been reaffirmed at [ICRA]A1+. The outlook on the long-term rating is stable.

Rationale

The ratings reaffirmation factors in the continued healthy financial risk profile of Kale as evident from its strong operating profitability, debt free status and strong free cash flow generation from operations. The company's profitability remains strong supported by its non-linear business model with focus on innovation and operational efficiency. The ratings also factor in the professional and experienced management team in place, its strong focus on airlines vertical and an established clientele in the airlines vertical. ICRA continues to take note of Kale's annuity based pricing model, which imparts stability to its revenue stream. ICRA has also taken note of the recent acquisition of the parent company, Accelya by Warburg Pincus from erstwhile promoters, Chequers Capital and the subsequent announcement of Accelya's business merger with Mercator, which also operates in the travel and transportation space. The combined synergies with Mercator, which also caters to the airlines vertical, could prove beneficial for Kale in improving competitive positioning and providing opportunities for cross selling.

The strengths are partially offset by concentration of revenues on a few customers and a single vertical (airlines). The scale of operations of Kale remains relatively modest owing to limited market for outsourcing in the airlines services space, thereby restricting the benefits of economies of scale and diversification. Despite strong cash flow generation from operations, ICRA believes that Kale's continuation of high dividend payouts (close to 100%) will constrain its accretions to net worth and accumulation of liquid reserves (cash and equivalents). Moreover, although the receivable cycle from one of its clients is longer than the company average, however, the recovery of the same continues to remain steady as per the management. The rating also factors in challenges of exposure to foreign exchange fluctuations and management of employee attrition.

[1] Rs. 100 lakh = Rs. 1 crore = Rs. 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- Non-linear business model with constant focus on innovation has helped improve efficiencies reflected in robust operating profitability
- Stability of revenue stream as most of it is annuity driven (multi-year contracts)

Credit weaknesses

- Exits of key customers due to competitive pressures which has impacted revenues in the past
- Liberal dividend policy has constrained networth and build-up of liquid reserves

Description of key rating drivers:

The company's business model which is based on its product/Intellectual Property Rights (IPR) platform is non-linear and supports higher revenues without commensurate growth in employees. Moreover, the company's business process outsourcing (BPO) model has become more mature with product innovations and enhancements over the years, which has further contributed to the efficiency gains. Thus, the company has been able to maintain its robust operating profitability over the past four fiscals. Moreover, a significant portion of the company's revenues is based on an annuity model which ensures committed and secured revenue from long term contracts with greater stickiness providing revenue visibility.

Although the company has an established clientele in the airlines vertical, the customer concentration has remained high. This has impacted the company's revenues in the past as a few key customers had exited due to better pricing offered by Kale's competitors. Although the combination with Mercator could alleviate competitive pressure a bit, renewals would continue to be driven by pricing.

The company has maintained a liberal dividend policy since its takeover by Accelya in FY2012 which has constrained accretions to net worth and accumulation of liquid reserves (cash and equivalents). After the acquisition by Warburg Pincus, ICRA does not expect any change in the dividend policy, and thus liquidity reserves (cash and equivalents) will remain sensitive to the level of dividend payouts.

Analytical approach:

For arriving at the ratings, ICRA has relied only on the financials of Kale and did not have access to financials of the holding company, following the acquisition. Furthermore, ICRA has applied its rating methodologies as indicated below:

Links to applicable Criteria

Corporate Credit Rating – A Note on Methodology

Rating Methodology for IT Services Industry – Non-hardware

About the company:
Accelya Kale Solutions Limited (Kale), formerly Kale Consultants Limited is a leading solutions provider for the Airline and Travel industry. Kale has a strong presence in Revenue Accounting and management practice which accounts for a major share of its overall revenues and balance revenue is from revenue recovery and protection services (also known as audit services) and other services.

Spain based Accelya acquired Kale from its erstwhile Indian promoters in FY2011 and held a controlling stake of 74.66% in the company as on December 31, 2016. In February, 2017, Warburg Pincus acquired 100% stake in the holding company of Kale that is Accelya Holdings (Accelya), from its erstwhile promoters, Chequers Capital. Also, Warburg Pincus which held a majority stake in Mercator, subsequently announced Accelya's merger with Mercator, a global provider of product-enabled solutions to the travel and transportation industry.

At present Kale is headed by Mr. John Johnston who is its Chairman, with Ms. Neela Bhattacherjee being the current Managing Director. Mr. John Johnston who was the CEO of Accelya has also been appointed the CEO of the combined entity with Mercator.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

S No	Name of the instrument	Current Rating			Chronology of rating history for the past 3 years		
		Type	Rated amount (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				May 2017	Apr-16	Apr-15	Mar-14
1	Fund based limits	Long-term/Short-term	1.5	[ICRA]A+ (stable)/[ICRA]A1+	[ICRA]A+ (stable)/[ICRA]A1+	[ICRA]A+ (stable)/[ICRA]A1+	[ICRA]A+ (stable)/[ICRA]A1+
2	*Fund based /non-fund based limits	Long-term/Short-term	8.5	[ICRA]A+ (stable)/[ICRA]A1+	[ICRA]A+ (stable)/[ICRA]A1+	[ICRA]A+ (stable)/[ICRA]A1+	[ICRA]A+ (stable)/[ICRA]A1+
3	Non-fund based limits	Long-term/Short-term	6.7	[ICRA]A+ (stable)/[ICRA]A1+	[ICRA]A+ (stable)/[ICRA]A1+	[ICRA]A+ (stable)/[ICRA]A1+	[ICRA]A+ (stable)/[ICRA]A1+
4	Fund based facilities	Short-term	1.3	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Interchangeable between CC and EPC/EBD and Credit Exposure limits to the extent of Rs.8.5 crore

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Instrument	**Date of Issuance / Sanction**	**Coupon Rate**	**Maturity**	**Amount Rated (Rs. crore)**	**Current Rating and Outlook**
Fund based limits	-	-	-	1.5	[ICRA]A+ (stable)/[ICRA]A1+
*Fund based /non-fund based limits	-	-	-	8.5	[ICRA]A+ (stable)/[ICRA]A1+
Non-fund based limits	-	-	-	6.7	[ICRA]A+ (stable)/[ICRA]A1+
Fund based facilities	-	-	-	1.3	[ICRA]A1+

*Interchangeable between CC and EPC/EBD and Credit Exposure limits to the extent of Rs.8.5 crore

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
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