Accelya Kale Solutions Limited

May 25, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term fund-based facilities	1.50	1.50	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
Long-term/Short-term fund-based /non-fund-based facilities	8.50	8.50	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
Long-term/Short-term non-fund-based facilities	6.70	6.70	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
Short term, fund-based facilities	1.30	1.30	[ICRA]A1+ reaffirmed
Total	**18.00**	**18.00**	

* Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the ratings for the Rs. 6.7-crore 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). 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. [1]

Rationale

The ratings reaffirmation favourably factors in the company's healthy financial risk profile, its non-linear business model with annuity revenue stream, strong focus and established clientele in the airlines vertical supported by a professional and experienced management team. Kale's healthy financial risk profile is evident from its strong operating profitability, debt-free status and strong cash generation from operations. Furthermore, the annuity-based pricing model, imparts stability to its revenue stream. The company's strong focus on the airlines vertical and its work with an established clientele has helped it gain domain expertise and differentiate itself in the market place. At the parent level, Mercator's (which also operates in the travel and transportation space) business merger with Accelya Holding (Accleya) in February 2017, might prove beneficial for Kale in improving its competitive positioning and providing opportunities for cross selling.

The strengths are partially offset by the concentration of revenues on a few customers and in a single vertical (airlines), modest scale of operations, its liberal dividend policy and a slightly elongated payment cycle for one of its customers. Dependence upon a few customers has impacted the company's growth trajectory when it witnessed a few customer exits in the past. In the last fiscal too, the loss of a key customer in Q2 FY2018, as it filed for bankruptcy, impacted its growth in Q3 FY2018. The scale of operations of Kale remains modest owing to limited market for outsourcing in the airlines services space, thereby limiting the company's growth prospects. It is likely to maintain high dividend pay-outs, which will constrain Kale's accretions to net worth and accumulation of liquid reserves (cash and equivalents). Although the receivable cycle

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[1] *100 lakh = 1 crore = 10 million*

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

from one of its clients is relatively longer than the company average, the recovery of the same has remained steady. It also face challenges related to foreign exchange fluctuations and employee attrition.

Going forward, the company's financial risk profile is likely to be supported by its strong operating profitability and limited capital expenditure planned in the medium term. Nevertheless, its liquid reserves (cash and equivalents) shall remain sensitive to the level of dividend pay-outs.

Outlook: Stable

ICRA's Stable outlook factors in the company's strong presence in the airlines vertical and a strong financial risk profile as reflected in its robust profitability and debt protection metrics. The outlook may be revised to Negative in case of a steep decline in operating performance and/or inorganic growth leading to deterioration in cash flow indicators and debt protection metrics. The outlook may be revised to Positive in case of a significant improvement in scale while maintaining its profitability levels.

Key rating drivers

Credit strengths

Established presence in the airlines vertical and reputed clientele - The company has more than thirty years of presence in the airlines vertical and has built a strong domain expertise, especially in the passenger revenue accounting (PRA) space, which helps it to compete effectively in the market. It thus has a reputed clientele with presence across all the major geographies.

Stability of revenue stream as most of it is annuity driven (multi-year contracts) - 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.

Non-linear business model with constant focus on innovation has resulted in robust operating profitability - The company's business model is based on its product/intellectual property rights (IPR) platform is non-linear and supports higher revenues, without commensurate growth in employees. Moreover, Kale'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, it has been able to maintain its robust operating profitability over the past five fiscals.

Healthy financial risk profile - The company's financial risk profile is healthy as evident from its strong operating profitability, debt-free status and strong free cash flow cash generation from operations. Despite its liberal dividend policy, Kale has maintained adequate liquidity to fund its growth from internal accruals and ICRA does not expect any change in the same.

Credit challenges

High customer concentration - Although the company has an established clientele in the airlines vertical, the customer concentration has remained high. This has impacted its growth trajectory in the past, when there have been customer exits due to competition or other factors. One of its key customers also exited in the Q2 FY2018, which could lead to some pressure on its revenues over the next fiscal.

Liberal dividend policy has constrained net worth and build-up of liquid reserves - The company has maintained a liberal dividend policy since it was taken over by Accelya in FY2012, which has constrained the accretions to net worth and accumulation of liquid reserves (cash and equivalents). After the acquisition of its parent company Accelya by Warburg

Pincus, ICRA does not expect any change in the dividend policy, and thus the liquidity reserves (cash and equivalents) will remain sensitive to the level of dividend pay-outs.

Small market size and high competition - The company's scale of operations remains modest owing to limited market for outsourcing in the airlines services space, thereby limiting its growth prospects. Further, Kale also faces stiff competition from other third-party outsourcing companies and also from the in-house departments of airlines. The parent, Accelya's merger with Mercator, however, could prove beneficial for Kale in improving its competitive positioning and provide it opportunities for cross selling.

Analytical approach: For arriving at the ratings, ICRA has analysed the standalone results of the company.

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating methodology for Information Technology (Services) Industry

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 the 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. Subsequently, 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 (a global provider of product-enabled solutions to the travel and transportation industry) subsequently announced Mercator's business merger with Accelya. As on March 31, 2018, Accelya Holdings holds a 74.66% stake in Kale.

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 is also appointed the CEO of the combined entity with Mercator**.**

According to consolidated 9M FY2018 results, the company reported a PAT of Rs. 67.3 crore on an operating income of Rs. 283.1 crore.

*Key financial indicators (Audited)

	FY2016	FY2017
OI (Rs. crore)	341.0	367.4
PAT (Rs. crore)	83.0	91.3
OPBDIT/ OI (%)	39.0%	39.4%
RoCE (%)	112.6%	96.9%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest Coverage (times)	197.0	331.2

Adj. OI: Adjusted Operating Income; PAT: Profit after Tax; Adj. OPBDIT: Adjusted Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress)

* *Kale follows a July to June financial year cycle*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date &Rating May 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 Apr 2016	Date & Rating in FY2016 Apr 2015
1	Long term/Shortterm fund-based limits	Long term/ Short term	1.50	-	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+
2	Long term/Short term fund based /non-fund-based limits*	Long term/ Short term	8.50	-	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+
3	Short term,fund-based facilities	Short term	1.30	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Long term/Short term scale non-fund-based limits	Long term/ Short term	6.70	-	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A1+

* Two-way interchangeability to the extent of 100% between CC and EPC/PCFC/FBD/EBR limits for Rs 8.50 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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long-term/Short-term fund-based limits	-	NA	-	1.50	[ICRA]A+(Stable) /[ICRA]A1+
-	Long-term/short-term fund based /non-fund-based limits*	-	NA	-	8.50	[ICRA]A+(Stable) /[ICRA]A1+
-	Short term, fund-based facilities	-	NA	-	1.30	[ICRA]A1+
-	LT/ST scale non-fund-based limits	-	NA	-	6.70	[ICRA]A+(Stable) /[ICRA]A1+

* Two-way interchangeability to the extent of 100% between CC and EPC/PCFC/FBD/EBR limits for Rs 8.50 crore

Source: Company

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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.

For more information, visit www.icra.in

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