June 14, 2019

Accelya Solutions India Limited (erstwhile Accelya Kale Solutions Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term fund-based facilities	1.5	1.5	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
Long-term/Short-term fund-based /non-fund based facilities	8.5	8.5	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
Long-term/Short-term non-fund based facilities	6.7	6.7	[ICRA]A+(Stable)/[ICRA]A1+ reaffirmed
Short term, fund-based facilities	1.3	1.3	[ICRA]A1+ reaffirmed
Total	**18.0**	**18.0**	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation favourably factors in the healthy financial risk profile of Accelya Solutions India Limited (ASIL), 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. ASIL'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, the business merger of Mercator (which also operates in the travel and transportation space) with Accelya Holding (Accleya) in February 2017 is likely to be beneficial for ASIL in the long-term to improve its competitive position and provide it opportunities for cross selling.

ASIL's rating strengths are partially offset by the concentration of its revenues on a few customers and in a single vertical (airlines), along with its modest scale of operations, 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 key customer exits in the past. Its scale of operations is likely to remain modest given the limited market for outsourcing in the passenger revenue accounting space, consequently limiting the company's growth prospects. ASIL is likely to maintain high dividend pay-outs, which will constrain its accretions to net worth and accumulation of liquid reserves (cash and equivalents). Although the receivable cycle from one of its clients is relatively longer than the company average, the recovery of the same has remained steady. The company also faces 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) will 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 or a disproportionate dividend pay-out 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 profitability levels.

Key rating drivers

Credit strengths

Established presence in the airlines vertical and reputed clientele - The company has operated for more than 30 years 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 spread across all 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, which 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 efficiency gains. Thus, ASIL 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, ASIL has maintained adequate liquidity to fund its growth from internal accruals and ICRA does not expect the same to change.

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 industry related risk factors.

Liberal dividend policy constrained net worth and build-up of liquid reserves - The company has maintained a liberal dividend policy since it was taken over by Accelya Group 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, the dividend policy has remained similar. Therefore, ASIL's 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 PRA space, thereby limiting its growth prospects. Further, ASIL also faces stiff competition from other third-party outsourcing companies as well as in-house departments of airlines. In ICRA's view, the parent, Accelya's merger with Mercator is likely to be beneficial for the company in improving its competitive positioning and providing it opportunities for cross selling.

Liquidity position

The company has remained debt-free over the years. It has been able to generate sufficient cash to meet its internal requirements. However, over the years, the dividend pay-out ratio has remained on the higher side and, thus, the cash reserves will remain sensitive to the level of dividend pay-outs. Additionally, the company has sufficient undrawn sanctioned limits - with low average utilisation over the past 12 months- which is expected to support its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Information Technology (Services) Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on consolidated financial statements of the issuer.

About the company

Accelya Solutions India Limited, formerly Accelya Kale Solutions Limited, is a leading solutions provider for the airline and travel industry. The company has a strong presence in revenue accounting and management practice, which accounts for a major share of its overall revenues, while the rest is generated by recovery and protection services (also known as audit services) and other services.

The Spanish firm, Accelya, backed by Chequers Capital, acquired ASIL from its erstwhile Indian promoters in FY2011. Subsequently, in February 2017, Warburg Pincus acquired 100% stake in the holding company of Kale, Accelya Holdings (Accelya), from Chequers Capital. Warburg Pincus, which held a majority stake in Mercator (a global provider of product-enabled solutions to the travel and transportation industry), subsequently announced the latter's business merger with Accelya. As on March 31, 2019, Accelya held a 74.66% stake in ASIL.

At present, ASIL 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 the CEO of the combined entity with Mercator**.**

According to consolidated 9M FY2019 results, the company reported a PAT of Rs. 80.0 crore on an operating income of Rs. 321.4 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	367.4	381.4
PAT (Rs. crore)	97.2	89.2
OPBDIT/OI (%)	39.4%	39.6%
RoCE (%)	102.8%	77.2%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	338.1	382.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date &Rating Jun-19	Date & Rating in FY2019 May-18	Date & Rating in FY2018 May-17	Date & Rating in FY2017 Apr-16
1	Long term/ Short term 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	Long term/ Short term 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	Short term, fund-based facilities	Short term	1.3	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Long term/ Short term scale 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+

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	-	1.5	[ICRA]A+ (Stable) /[ICRA]A1+
-	Long-term/short-term fund based /non-fund-based limits*	-	NA	-	8.5	[ICRA]A+ (Stable) /[ICRA]A1+
-	Short term, fund-based facilities	-	NA	-	1.3	[ICRA]A1+
-	LT/ST scale non-fund-based limits	-	NA	-	6.7	[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: Accelya Solutions India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kale Softtech Inc., USA	100.00%	Full Consolidation
Zero Octa UK Limited, UK	100.00%	Full Consolidation
Kale Consultants Limited Employees Welfare Trust	100.00%	Full Consolidation

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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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