July 03, 2020

Accelya Solutions India 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 ratings reaffirmation favourably factors in Accelya Solutions India Limited's (ASIL's) healthy financial risk profile, its non-linear business model, 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, with part of revenues based on an annuity-based model, it imparts stability to its revenue stream. The company's strong focus on the airlines vertical has helped it gain domain expertise and differentiate itself in the market place.

The Covid-19 pandemic and the subsequent travel embargo imposed by airlines globally will adversely impact the company's revenues and profitability as fixed costs remain unabsorbed—the company's top line is partially volume linked where a reduction in passenger traffic has a direct bearing on its revenues. Furthermore, while travel restrictions are likely to be gradually eased from July 2020 onwards, passenger traffic is expected to remain muted given that consumers may be wary of travelling because of the ongoing pandemic. Additionally, reduction in overall business and consumer confidence due to the global recession is likely to put pressure on the recovery in air travel demand. Thus, in view of the same, ICRA estimates the company's revenues and profitability to remain impacted in FY2021 with meaningful recovery expected from FY2022 onwards. In the absence of any second wave of the pandemic, ICRA expects the company's financial risk profile to remain adequate for the rating category. Moreover, given the uncertain economic environment and pressure on cash flows, ICRA anticipates the company to exercise prudence with regards to its dividend policy and maintain a comfortable liquidity position.

The ratings continue to remain constrained by the concentration of revenues on a few clients and in a single vertical (airlines), its modest scale of operations, its liberal dividend policy and expected pressure on collections, which are likely to elongate the working capital cycle. Dependence upon a few clients has impacted the company's growth trajectory when it witnessed key client exits in the past. ASIL's scale of operations will continue to remain modest in the medium term, given the estimated decline in passenger traffic over CY2020 and CY2021 compared to CY2019 levels. Additionally, the limited market for outsourcing in the passenger revenue accounting space also constrains revenue growth. The company's receivables are expected to remain stretched in the near-term, given the stress on its clients. With a significant proportion of export earnings, the company also remains exposed to foreign exchange fluctuations.

Going forward, ICRA will continue to monitor the company' quarterly performance for any significant deviation in performance; material change in liquidity position and any second wave of the pandemic impacting its credit risk profile will remain key rating triggers.

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 across all major geographies.

Non-linear business model with constant focus on innovation resulting in robust operating profitability - ASIL'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, further contributing to its efficiency gains. Thus, it has been able to maintain its robust operating profitability in the past.

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 and lack of business diversity - Although the company enjoys domain expertise and an established clientele in the airlines vertical, its customer concentration risk has remained high. This has impacted its growth trajectory in the past, when clients exited due to competition or industry related risk factors. Furthermore, lack of business diversity remains a challenge.

Liberal dividend policy constrains net worth and build-up of liquid reserves; receivable cycle to be elongated - The company has maintained a liberal dividend policy since it was taken over by the Accelya Group in FY2012, which has constrained the accretions to net worth and accumulation of liquid reserves (cash and equivalents). In the current environment, the company's receivables are expected to remain stretched, given the stress on its clients.

Small market size and high competition - ASIL's scale of operations is expected to remain modest, given the estimated decline in passenger traffic over CY2020 and CY2021 and limited market for outsourcing in the passenger revenue accounting space, which constrains its growth prospects. Furthermore, ASIL continues to face stiff competition from other third-party outsourcing companies as well as from the in-house departments of airlines.

Liquidity Position: Strong

ASIL has not availed any debt in the past and, therefore, has very healthy coverage ratios. The cash flow from operations in FY2019 remained strong for the company, albeit lower than FY2018, supported by strong profitability and partly offset by higher receivables. Despite high dividend pay-out and free cash flows being impinged by the same, the company has maintained a comfortable liquidity cushion for managing daily operations and meeting working capital requirements.

The company's free cash from operations is likely to be impacted in FY2020, given the capital expenditure (capex) for furnishing its new office at Vikhroli, Mumbai apart from the capex on software products further impacted by the pandemic. The company had a comfortable liquidity in the form of consolidated cash and equivalents of Rs. 37.9 crore as on December 31, 2019. ICRA expects the company to maintain its liquidity on account of judicious cost management, support from its parent company and a prudent dividend policy.

Rating sensitivities

Positive triggers – A ratings upgrade is unlikely unless there is significant improvement in scale of operations and meaningful business diversification while maintaining its financial risk profile.

Negative triggers – Material decline in scale of operations such that there is considerable pressure on profitability and/or any disproportionate dividend pay-out constraining liquidity will be a key negative trigger.

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 (ASIL) 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 and the balance share is from revenue recovery and protection (also known as audit services) and other services.

The Spanish entity, Accelya Holding (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 ASIL, i.e., 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 Mercator's business merger with Accelya. During November 2019, Vista Equity Partners acquired 100% stake in Accelya Topco UK Limited (Accelya Topco), the ultimate holding company of ASIL, from Warburg Pincus. As on March 31, 2020, Accelya holds a 74.66% stake in ASIL.

At present, ASIL is headed by Mr. John Johnston, the chairman, along with Ms. Neela Bhattacherjee, the current managing director. Mr. Johnston, who was the CEO of Accelya, is also the CEO of the combined entity with Mercator.

According to consolidated 9M FY2020 results, the company reported a PAT of Rs. 83.3 crore on an operating income of Rs. 349.2 crore.

Key financial indicators (audited, consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	382.5	433.0
PAT (Rs. crore)	89.2	106.4
OPBDIT/OI (%)	39.8%	39.4%
PAT/OI (%)	23.3%	24.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	385.2	433.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date &Rating July 03 2020	Date & Rating in FY2020 November 27 2019	Date & Rating in FY2020 June 14 2019	Date & Rating in FY2019 May 25 2018	Date & Rating in FY2018 May 18 2017
1	Long term/Short term fund-based limits	Long term/ Short term	1.5	-	[ICRA]A+ (Stable) /[ICRA]A1+	[ICRA]A+ (Stable) /[ICRA]A 1+	[ICRA]A+ (Stable) /[ICRA]A 1+	[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]A 1+	[ICRA]A+ (Stable) /[ICRA]A 1+	[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+	[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]A 1+	[ICRA]A+ (Stable) /[ICRA]A 1+	[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
Accelya Solutions Americas Inc.	100.00%	Full Consolidation
Accelya Solutions UK Limited	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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