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Re-Touch
on
Accelya Kale



About the Company

Accelya Kale Solutions Limited provides a suite of financial and business intelligence solutions to the Airlines. Formerly known as Kale Consultants Limited, is a part of Accelya group since 2010.

- Accelya helps airlines integrate and simplify their financial processes.
- Accelya partners with airlines right from the time a ticket or an air waybill is issued, all the way through its entire financial life cycle and until the data is converted to actionable intelligence.
- Accelya commercial solution help airlines steer sales and strengthen their business relationship with travel agents.
- It provides insights on airline sales performance, agent performance, route performance and instantly identifies potential for growth. - Co. has operations in more than 15 geographies.
- Company commands a significant advantage in terms of business domain knowledge and emerging industry change.
- It has strong base of Intellectual Property and Intellectual Capital.
- The company has a global customer base. The company has long term contracts with its customers which generates annuity revenues and provides good visibility on business.
- The company has currency hedging policies and practices in place which are regularly review to mitigate currency volatility risk.

⇒ Business Model:

The company offers services through 2 models - Outsourced service model and Managed hosting model.

Outsourced service model offers outsourced services on the REVERA platform and combines domain expertise with service orientation. Company takes complete accountability of accuracy, timeliness and completion of data.

Managed hosting model is for the companies that wish to use the in-house platform and not outsourcing.

However, a majority of contracts are based on Outsourcing service model.

The clients are billed on a one time implementation charge and Annual outsourcing service fee.

Majority of the services are signed on a 5 year contract with severe termination charges.

The annual service fee is a variable fee on a per-transaction basis for the service outsourced. This fee includes all ongoing costs associated with hardware, software, data centers, network, maintenance, skilled resources, quality control etc.

The per-transaction fee is usually negotiated on the scope of the service, level of automation required, business complexity, data analytics required and the volumes.

Strengths and Opportunities:

- Strong global presence:

Accelya Kale is a part of the Accelya Group. With the combination of Mercator and Accelya, the combined Company has revenues of \$200+ million and over 400 customers, including 250 airline customers. With operations in more than 15 geographies, the Company now has better opportunities to connect with global customers.

- Business expertise:

The Company commands a significant advantage in terms of business domain knowledge and emerging industry changes. Years of experience have provided the Company with a strong base of Intellectual Property and Intellectual Capital. This advantage helps Accelya Kale to provide solutions which simplify airline financial processes and address their challenges.

- Per Transaction model:

Accelya Kale offers its solutions on a pay-per-use model. It enables airlines to have a low capex and variable costs. At the same time, this model ensures the Company annuity revenue streams resulting in revenue visibility and foundation for growth.

Risks:

- 10 companies constitute around 60-70% of its revenue, so loss of a big client can cause disturbance in its earnings.
- Very less to lose, but gain will be limited and also at a slow pace and will depend on:
 - number of airlines
 - profitability of airlines
 - oil prices
 - new products
 - air traffic
 - Currency price
- Increasing Competition.
- The customer base is limited, the presence of an aggressive rival who resorts to undercutting can cause issues for Accelya fortune.

Major Offerings:

Products/Services Accelya Kale provides are:

- **REVERA®- Revenue Accounting Solution:** Accelya Kale has more than 25 years of experience in revenue accounting and helps airlines process over 1 billion revenue accounting transactions annually.
Passenger revenue has varied sources, evolving revenue recognition policies and regular introduction of new distribution channels.

Accelya Kale is a market leader and pioneer in Third Party Passenger revenue accounting through its Revera platform. REVERA is an automated passenger revenue accounting platform which helps audit and verify airline ticket revenue and therefore provides transparency to revenue flow, trends, and analysis, as well as statistical data that is crucial other departments like accounting, finance and marketing.

The REVERA suite of solutions enables airlines to streamline and simplify revenue accounting across passenger, proration, interline, cargo and airmail. The REVERA suite includes REVERA PRA, APEX® Proration, REVERA Interline, REVERA CRA and REVERA Airmail.

- **FinesseCost™ - Cost Management Solution:** FinesseCost helps airlines efficiently manage their Direct Operating Costs (DOC). It streamlines the payables process by automatically processing invoices from various DOC vendors such as airports, ATC and fuel companies.
- **FinesseMBS™ - Miscellaneous Billing Solution:** FinesseMBS is a SIS-compliant miscellaneous (non - transport) billing solution that streamlines miscellaneous

receivables and payables.

- **FinesseFPS™ - Flight Profitability Solution**: FinesseFPS is a multi-dimensional analytical tool which accurately assigns, measures and analyses costs and revenues at a flight level to report flight profitability.
- **Audit and Revenue Recovery Service**: Accelya Kale is the leader in revenue recovery and protection services to airlines. Its audit services span the entire ticket lifecycle from original booking through to the completion of the journey. This is supported by comprehensive recovery services – from raising of Agent Debit Memos (ADMs) to fund collection.

(While these services have standalone benefits, they are usually sold to existing REVERA users)

- **Industry Solutions (IATA Business Partner)**: Accelya Kale partners with IATA on industry-wide initiatives and provides strategic solutions that aim to transform and simplify a variety of airline processes.
2 of the company's solutions include Neutral Fare Proration (NFP) and Simplified Invoicing and Settlement (SIS).

- **Neutral Fare Proration (NFP)**: When a passenger itinerary needs services from multiple airlines that have commercial agreement between them, the fares need to be prorated accordingly. Also, the cycle of billing, evaluation, rejection, re-evaluation, re-rejection and final settlement between airlines had to be simplified. IATA introduced standards towards this initiative and Accelya Kale's APEX engine is at the heart of this industry-wide proration practice.

- **Simplified interline Settlement (SIS)**: IATA had removed the usage of paper through various initiatives like e-ticketing, e-freight and paperless clearing-house. However, the interline billing and settlement process is still using legacy paper-based processes. The SIS project will enable revenue accounting and interline settlement to be simpler, cheaper and paperless.

Accelya Kale is the primary technology supplier for this initiative and is being paid on a cost recovery basis.

- Understanding Business Type

- Software based business, Asset-light business model, one of the Market leaders, no direct Indian competitor,
- Doesn't require Capex to grow, growth depends on new customers and new products, both margin and volume business,
- Customer retention will always be a major challenge, capability (min. 5 year contract), more export concentrated,
- Continuous upgradation required, quality and differentiation matters, airlines being a low margin business - products/services should be both cost effective and labour effective (contribute to ease of doing business),
- Has the advantage of selling other services to already existing clients as complementary services,
- It is somewhere dependent on the airline industry, its fortunes are directly dependent on the fortunes of the airline industry and the traffic carried by them. Issues like a terrorist attack, surging air ticket prices due to surging fuel prices etc can impact the company as much as it can impact the airline,
- High return ratios, revenue on per transaction basis,
- High operating leverage business - profit can grow at higher rate than revenues after initial development costs are recovered,
- Usually less companies (clients) contribute to high revenue share, generally a high cash generation and dividend payout business model,
- Also, the question of "growth" in such a business can come in only when new airlines start business or if the existing customer airlines experience a surge in traffic or if one can negotiate better margins from them. Per contra, if an existing airline shuts shop or moves on to a rival solutions provider, it can impact Accelya's prospects.
- Also, because the customer base is limited, the presence of an aggressive rival who resorts to undercutting can cause issues for Accelya fortune,
- "High growth" should not be expected but "Steady earnings"

Competitors:

Maximum market share of airline outsourcing is captured by Lufthansa System, Mercator, Accelya Kale, Travelsky, NIIT, Sabre, Amadeus, Ceicom(Indra), Navitaire, Rene Perez, Maureva, SITA.

After 2017, Accelya Kale and Mercator together form about 18% of market share.

Around 9% of market are having in-house IT Department.

Lufthansa systems constitute for around 9% of the market and all remaining players total for not more than 6% individually.

New Management:

In FY 17-18, Warburg Pincus, a private equity, took over Accelya Kale. Warburg Pincus acquired majority shares in the group and also owns majority shares in Mercator (a global provider of software platforms and product-enabled solutions to the travel and transport industry). With Warburg Pincus backing, Accelya and Mercator will operate under a single brand.

Although, this may not significantly increase company's sales directly but will help with synergy by increasing its quality and efficiency and it may also give Accelya more pricing power.

Valuation:

Currently, Company is paying out Rs.51 as dividend per share. As per Dividend Discount Model, intrinsic value of a stock comes out to be 1120 (considering next period's Dividend per share as 56, discount rate as 15 and dividend growth rate as 9.8 (ROE = 68.45% and Retention rate = 14.34)).

⇒ Financials

Profit And Loss Statement

Report Date	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Sales	218.76	303.84	316.74	302.82	340.98	367.4	381.4
Total Expenses	158.34	176.02	179.91	189.86	208.17	222.51	247.55
Other Income	8.68	4.79	4.79	5.71	8.95	11.4	20.3
Depreciation	8.07	11.53	12.2	13.32	13.31	14.38	14.37
Interest	0.79	0.53	0.48	0.49	0.65	0.43	-
Profit before tax	60.24	123.1	129.16	106.74	127.81	141.49	150.4
Tax	19.45	38.73	45.22	39.34	44.78	50.15	51.19
Net profit	40.79	84.38	83.93	67.4	83.02	91.34	92.74

Balance Sheet

Report Date	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Equity Share Capital	14.93	14.93	14.93	14.93	14.93	14.93	14.93
Reserves	122.61	87.03	94.62	100.15	98.21	165.58	164.66
Borrowings	0.54	0.07					
Other Liabilities	59.97	128.75	107.57	95.89	104.14	67.33	75.72
Total	198.05	230.78	217.12	210.97	217.28	247.84	255.31
Net Block	68.73	74.39	79.02	75.17	76.89	78.08	90.45
CWIP	2.82	1.94	1.06	0.04	0.06	0.64	0.43
Investments	0.01	37.57	34.19	37.31	24.14	38.03	36.44
Other Assets	126.49	116.88	102.85	98.45	116.19	135.01	127.99
Total	198.05	230.78	217.12	210.97	217.28	247.84	255.31

Cash Flow Statement

Report Date	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Cash from Operating Activity	62.08	114.18	104.02	66.28	79.97	92.8
Cash from Investing Activity	-23.21	-38.07	9.1	-7.6	-5.99	-22.76
Cash from Financing Activity	-42.54	-70.23	-113.99	-56.96	-68.99	-72.7
Net Cash Flow	-3.67	5.88	-0.87	1.73	4.99	-2.67

Trends:	5Yr	3Yr
Sales Growth	11%	5%
OPM	39%	40%
PAT Growth	17%	3%

Narration	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Net Fixed Asset Turnover	4.25	4.13	3.93	4.48	4.86
Receivables days	39	41	45	41	52
Net Fixed Assets	74	79	75	77	74
Capital Work in Progress	2	1	0	0	1
Share Capital	15	15	15	15	15
Dividend Paid (Div) Without DDT	104	73	54	67	76
Dividend Payout	124%	87%	80%	81%	83%
Retained Earnings (RE=PAT-Div)	(20)	11	14	16	15
Cash + Investments (CI +NCI)	72	57	59	51	62

Concluding views:

The company makes a fine example of having impressive business model in a not so impressive industry. It stands strong in its undertaking of different services for Airlines but its the industry model which may hamper sustainability of company's long term advancement. After the merger into Warburg Pincus group, company is expected to show better return numbers indicating enhanced efficiency. The main point of concern for the company is the growth factor. Given limited customers in market for the company to capture amongst other competitors will always ensure a cap on the profitability of the company. Though, company is giving out regular dividends (around 83% dividend payout and ~4.5% of dividend yield currently). This company appears the one which would ensure safety of capital from getting eroded but may not result in creating significant wealth in future.

Major Sources:

- Company resources (Accelya Kale)
- Accelya White Paper Report - Revenue accounting: Paradigm for the next decade
- KPMG Report - Revenue accounting outsourcing market analysis
- NIIT Technologies Report - New Age Asset: Airline Passenger Revenue Accounting
- Stock Scan report

Disclaimer:

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Author: Karan Agarwal
(karan.agarwal@jainam.biz)

