



Accelya Kale Solutions Ltd.

A niche business with strong moat and high dividend yield opportunity

Content Index

- **Accelya Kale – Stock Details:- Slide #3**
- **Key Highlights of Accelya Kale:- Slide #4**
- **Accelya Kale - Company Section:- Slide #5**
- **Accelya Kale - Business Overview:- Slide #7**
- **Accelya Kale – Products & Solutions:- Slide #9**
- **Accelya Kale – Key Clients:- Slide #12**
- **Accelya Kale - Financials:- Slide #14**
- **Risks and Concerns:- Slide #22**
- **Conclusion:- Slide #23**

Accelya Kale - Stock Details

CMP
Rs.933

Market Cap
1392cr.

Codes
BSE: 532268
NSE: ACCELYA

No. of shares
1.5cr.

Face Value
Rs.10

52week high/low
Rs.1230/850

P/E
21x

EV/EBITDA
11.6x

OCF Yield
7.2%

Key highlights of Accelya Kale

Quality Management

The parent group Accelya has world wide reputation from the last three decades & 75% of holding shows their confidence in the business.

High OCF yield

- Company is generating 100+cr. of cash for the revenues of 300+cr.
- 7.2% OCF yield @ CMP

Accelya Kale Solutions Ltd

Competitive advantage

- Long term agreements
- High customer stickiness
- Strong entry barriers

Strong Financials

- 100%+ ROCE avg.
- 80%+ ROE Avg.
- 40%+ EBITDA

Attractive Valuations

- EV / EBITDA - 11X
- P/E - 21x

Accelya Kale - Company Section

Company Overview

- Accelya Kale Solutions Limited (AKSL) part of the Accelya group, is a software solutions provider to the global Airline and Travel industry. It delivers world class software products, managed processes, technology and hosting services.
- Air lines face a complex operating environment and are looking at ways to simplify their business processes and make them efficient and agile. Through its products Accelya helps airline and travel companies manage their financial processes and gain insights into their business performance.
- The Group partners with airlines right from the time a ticket or an air waybill is issued, all the way through its entire financial life cycle, until the data is converted into actionable decision support.
- Accelya Group's expertise spans across all critical airline financial processes – BSP Processing, Revenue Accounting, Audit & Revenue Recovery, Card Management, Miscellaneous Billing, Cost Management and Business Intelligence.
- Accelya's industry solutions are driven by active partnerships with industry bodies and customers, and significant domain knowledge. Its customized approach in deploying these solutions supports clients with best fit solutions to match their requirements.
- Accelya is working with over two hundred customers and has presence in nine countries globally.

AKSL - Business Overview

Importance of Outsourcing for airlines:

The airline industry has become increasingly complex over the last several years. The majority of the airlines are facing problems with fluctuation in fuel costs, labor relation issues, capacity management challenges and continuously changing regulations. The airline industry is sensitive to the uncertain global and economic environment and it is facing pressure from increased competition in the industry through low cost carriers.

With several pressure points effecting the airlines business and its profitability, now it became essential for them to outsource some of their non-core operations. In an attempt to drive down costs, airlines are scrutinizing every part of what they do to see if someone else can do it more cheaply. The outsourcing also delivers benefits which extend far beyond cost savings. These benefits include rapid decrease in cost structures, moving costs from fixed to variable, maintaining focus on the customer, retaining customers in the face of operating cost reductions, placing focus on knowledge rather than intuition to plan capacity and manage inventory, making the cost structure transparent, engineering for rapid speed to value, consolidating delivery operations to standardize business processes, getting even more out of shared services costs and delivering continuous improvements.

Accelya Kale – Financial solutions for airlines:

Accelya Kale provides software solutions to airlines and help them to integrate and simplify their financial processes to better manage costs, risks, revenue leakages, cash flows, profitability and overall business performance. Accelya – group company of Accelya kale has experience across all critical financial processes. The Group partners with airlines right from the time a ticket or an air waybill is issued, all the way through its entire financial life cycle, until the data is converted into actionable decision support.

Over the years Accelya Kale became a pioneer of platform based BPO or Outsourced Services model for airlines. This business model offers outsourced services on the REVERA platform and combines domain expertise with service orientation (as per Service Level Agreements). With in the outsourcing space,

AKSL - Business Overview

the company offers the highest value proposition to customers and can claim complete system ownership. The company takes complete accountability of accuracy, timeliness and completeness of data. For customers who do not wish to outsource, but use the platform in-house, the company offers Managed Hosting model. Accelya Kale's business model give customers choice and the options to avoid capital cost and allow business benefits to pay for the transformation.

Pay Per Use Business Model:

Accelya Kale also offers its solutions on pay per use model. It helps airlines have a low capex and variable cost. At the same time, to the company it ensures annuity revenue streams resulting in revenue visibility and foundation for growth. Pay-per-use business model further helps airlines avoid upfront capital investments and achieve business growth.

By offering customers a transaction-based pricing model, ensuring steady annuity revenue and minimizing upfront capital investments for customers, Accelya Kale can try and mitigate against huge business environment fluctuations.

Accelya Kale – Revenue generation:

Accelya kale generates revenue from transaction processing and sale of software license, related implementation and maintenance service. In transaction processing services i.e. airline ticket and coupon processing charges, the company gets the revenue as per the rates fixed in contract with customers based on the work completed. For software license and related implementation services company will have fixed price contract with customers. Here the company gets the revenue by selling the software license and implementing it with customers. Revenue from maintenance will be on time and material basis.

Accelya Kale - Products & Solutions

Accelya provides solutions across all critical airline financial processes – BSP Processing, Revenue Accounting, Audit & Revenue Recovery, Card Management, Miscellaneous Billing, Cost Management and Business Intelligence solutions.

Revenue Accounting Solutions (REVERA) – Key driver of Accelya Kale:

The airline industry is witnessing significant challenges with profitability being directly impacted by the emergence of successful low-cost carriers coupled with alliances, market transition and other environmental factors. Given the increasingly competitive market scenario, it becomes imperative for airlines to streamline those areas that can positively influence their business models. Revenue Accounting is one such function that can have a major impact on an airline's profitability.

The Revenue Accounting function has changed manifolds as compared to what it was decades ago. With a lot of initiatives from IATA and group airlines, the focus has been to make the overall process electronic. While projects like eTicketing, Simplified Interline Settlement (SIS) etc. has changed the job of a Revenue Accountant from real accounting to monitoring the activities of the system in use, the demand of the fast-evolving global travel market has made the business of airline revenue accounting even more complex. There is tremendous pressure to record, monitor, analyze and collect all types of revenues as soon as possible. Thus, it becomes imperative for airlines' to streamline revenue accounting functions and develop a highly effective solution.

REVERA is Accelya's flagship product which provides solutions for airlines to streamline and simplify their revenue accounting operations. Accelya Kale has 20 years of experience in revenue accounting and helps airlines process over 300 million revenue accounting transactions annually. In revenue accounting solutions Accelya is one of the global leaders in the industry.

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

Accelya Kale - Products & Solutions

Year	No.of revenue accounting transactions Processed
FY08 (March - 08)	65 million
FY10 (March - 10)	85 million
FY14 (June - 14)	300mmillion

FinesseCost™ - Cost Management Solution:

FinesseCost™ helps airlines efficiently manage their Direct Operating Costs (DOC). It streamlines the payables process by automatically processing E-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. Using a single, integrated invoicing and settlement process, FinesseMBS™ standardizes billing and accounting practices across business units.

FinesseFPSTM – Flight Profitability Solution:

FinesseFPSTM is a multi-dimensional analytical tool which accurately assigns, measures, and manages each flight costs and revenues to reports flight profitability. It helps airlines in detailed analysis of the impact of each type of cost on the flight profitability.

Audit and Revenue Recovery Service:

Accelya Kale is the leader in revenue recovery and protection services to airlines. Its audit services span across 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. Through proprietary platform, skilled staff and best practices, the Company ensures maximized recovery and minimized errors.

Accelya Kale - Products & Solutions

Industry Solutions:

Accelya Kale Partners with IATA on industry--wide Initiatives And provides Strategic solutions That aim To transform And simplify A variety Of airline processes. Two of The company's Solutions include Neutral Fare Proration (NFP) And Simplified Interline Settlement (SIS).

Neutral Fare Proration:

When a passenger's itinerary requires service 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. As a part of the NFP process APEX accurately prorates more than 3 million transactions per month to over 35 airlines.

Simplified Interline Settlement:

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 still using legacy paper based process. The SIS project will enable revenue accounting and interline settlement to be simpler, cheaper and paperless. And when fully implemented, this project will take away 160 tons of invoices and supporting documents that are shipped around the world. This will also result in savings of \$450-\$700million through the elimination of paper mail charges, courier fees, lost documents and process in efficiencies.

Strong Competitive advantage in the business:

Customer stickiness in this business is very high. Once the customer implements the services it is very difficult for them to change to other products/companies. The association ship with industry bodies such as IATA helped Accelya to be a preferred outsource partner for airlines. With its customized services and intellectual property, Accelya has a strong competitive advantage which allows it grow sustainably for the long term.

Accelya Kale - Key Clients



Aer Lingus



FINNAIR



AIRFRANCE

flybe.

POLISH AIRLINES
LOT



AirEuropa

Luxair



Austrian

PEGASUS
AIRLINES

SAS



BRITISH AIRWAYS

S7 AIRLINES

TAP
TAP PORTUGAL

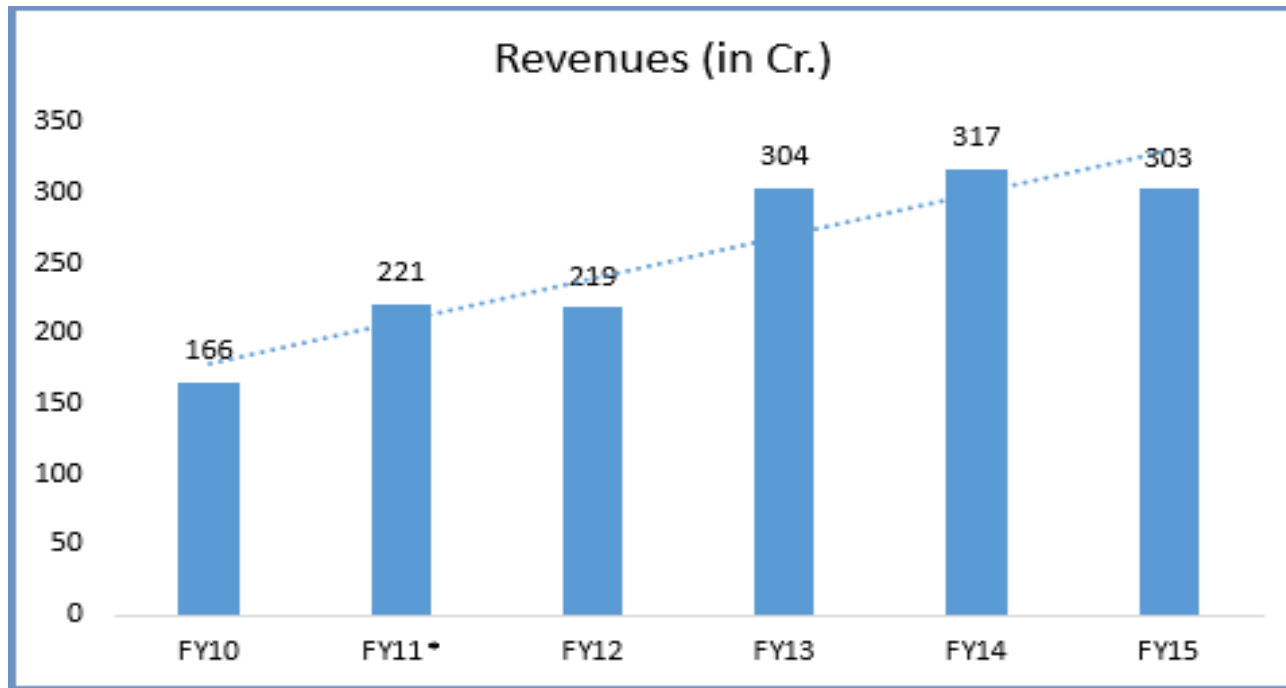
Accelya Kale - Key Clients



Accelya Kale is increasing its market share in the global airline outsourcing industry by adding new customers every year. Company is now providing services to more than 200 customers across the globe. The company has great advantage of cross selling the new products to its existing customers and improving its relationship by offering wide range of solutions.

Accelya Kale - Financials

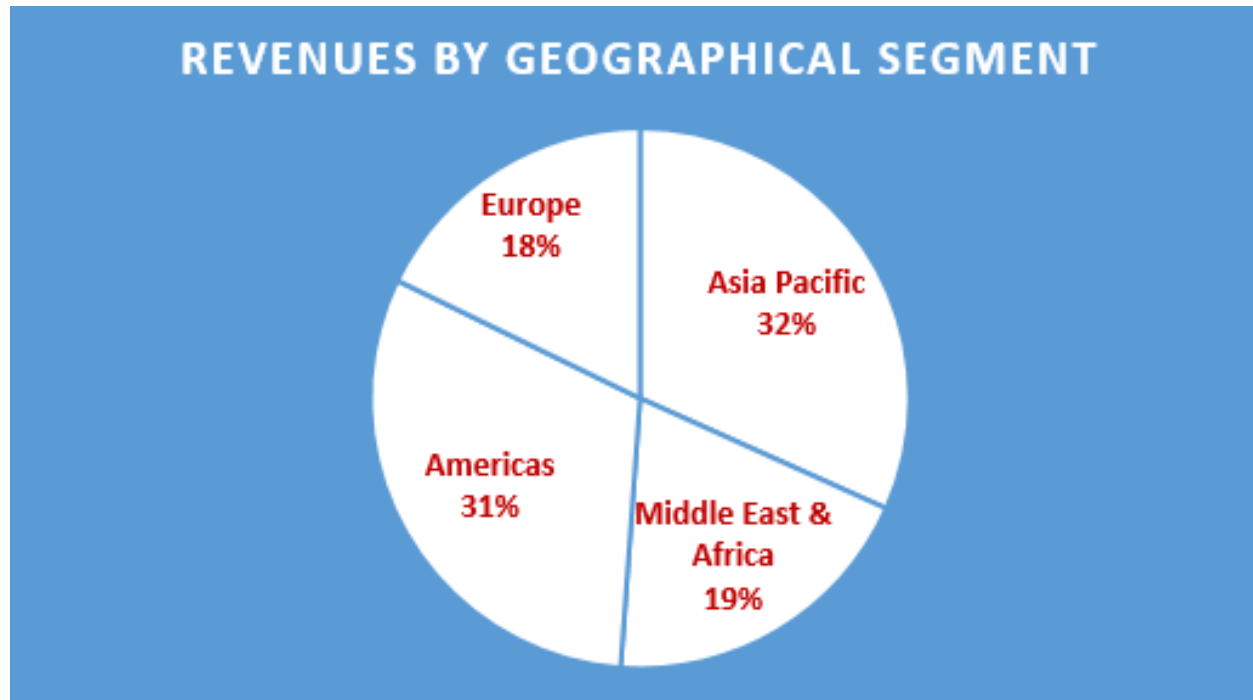
Revenue growth over the last few years



* FY11 includes fifteen months of revenue

- Accelya Kale's revenues have grown decently from 166cr in FY10 to 317cr. In FY14 and 30 cr. in FY15.
- Company has undergone structural change during FY11 and FY12 which lead to huge growth in revenues.
- The reason for the low growth in the last couple of years is due to loss of one major client. Even after this company was able to manage revenues in the same range. This lead by adding more customers to its list and cross selling its new products to existing customers.

Revenue breakup by geographical segment for FY15



- After the acquisition by Accelya (leading financial solutions provider globally), company got the more visibility across the globe.
- Company's revenues are well diversified across the different countries globally. This helps the company to mitigate the effect of low economic environment in one region.
- Company is deriving most of the revenues from Asia pacific (32% of total revenues) and Americas (31% of total revenues). The Europe region is contributing 18% to the overall revenue and Africa& Middle east countries are contributing 19%.

High operating margin business

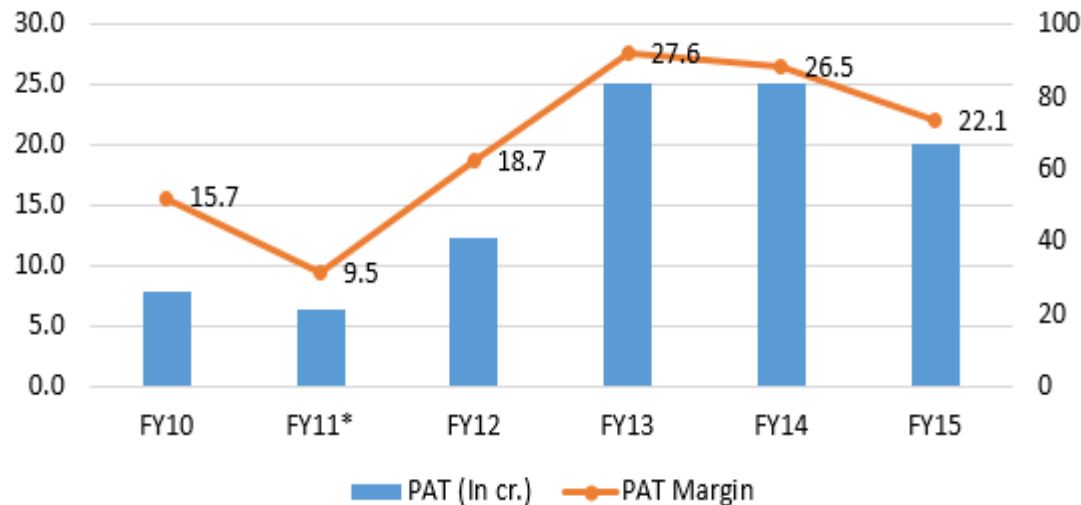
In cr.	FY10	FY11*	FY12	FY13	FY14	FY15
Revenues	166	221	219	304	317	303
Expenses	127	178	158	173	179	188
EBITDA	39	43	61	131	138	115
EBITDA Margin (%)	23.5	19.5	27.9	43.1	43.5	38.0
EBIT	25	26	53	119	126	102
EBIT Margin (%)	15.1	11.8	24.2	39.1	39.7	33.7

* FY11 includes fifteen months of revenue

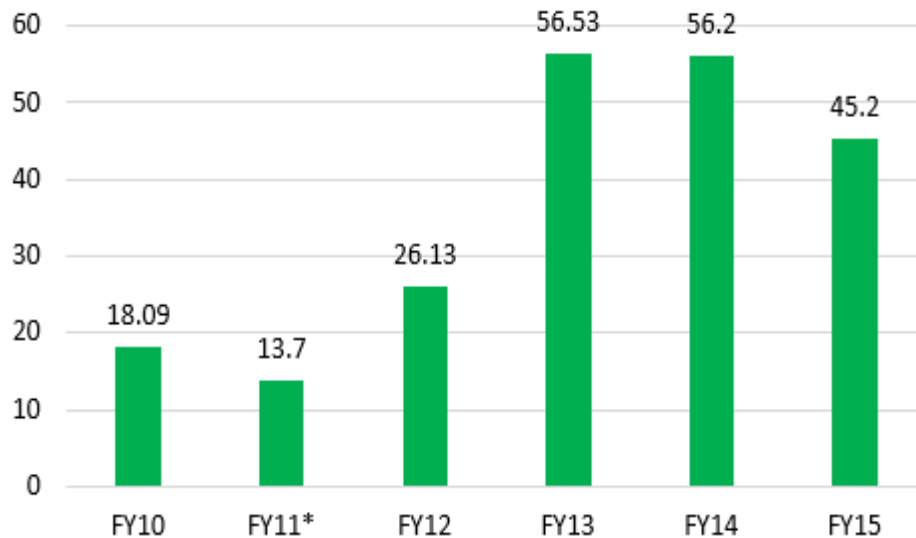
- In the last three years, Accelya's profitability has increased with increasing in the revenues.
- Compared to FY10 and FY11, the margins have increased in large numbers in the last four years.
- EBITDA has grown at CAGR of 24% from 39cr in FY10 to 115cr in FY15. During the same period the EBITDA margins have improved a lot from low of 19% to high of 43%.
- EBIT has grown at CAGR of 33% from 25cr in FY10 to 102cr in FY15 and touched high of 126cr in FY14. The EBIT margin also experienced a huge change from 15% in FY10 to 34% in FY15 and it touched 40% in FY14.
- Even during tough global economic environment company was able to generate such huge margins. This mainly lead by the company's unique business model and we expect this continue further with improvement in the global business environment

PAT margin and EPS

PAT and PAT Margin



EPS (Rs.)



- In the last few years, Company's PAT margins witnessed huge growth with increasing profits.
- Company's PAT has increased at CAGR of 21% from 26cr. In FY10 to 67cr. In FY15.
- Company was able to maintain same profit levels even after the loss of major customer during FY13 and FY14.
- Company's earnings per share (EPS) has increased from Rs.18 to Rs.56 in FY14 and Rs.45 in FY15.

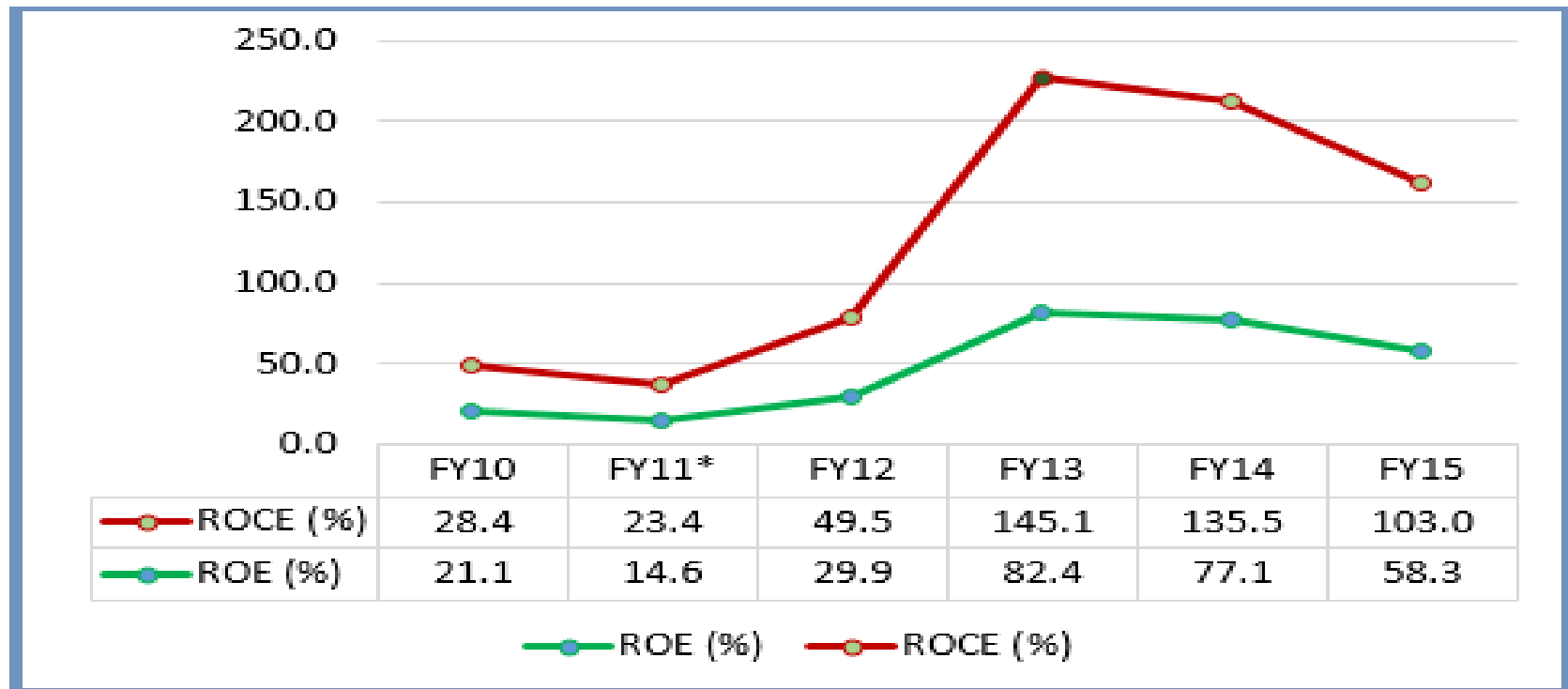
* FY11 includes fifteen months of revenue

High Dividend Payout Ratio

	FY12	FY13	FY14	FY15
Earnings per share (EPS) in Rs.	26.13	56.53	56.2	45.2
Dividend per share (in Rs.)	23.5	70	49	36
Dividend Pay Out Ratio (%)	89.9	123.8	87.2	79.6
Avg. Dividend pay out in last 4 years (%)	95.1			

- Company is paying hefty dividends every year which can be observed from the above table.
- Company has generous dividend policy of 85% pay out which means whatever the profits generated by the company, 85% of them will be distributed to company's shareholders.
- In the last four years company has distributed above 80% of the profits to share holders in the dividend form. This shows that the Accelya Kale is share holders friendly company.
- The combined average dividend pay out in the last four years stood at 95% which means company has distributed 95% of all the profits generated in the last four years.
- With increase in the performance, We expect the company to continue the same dividend policy going forward in the future.

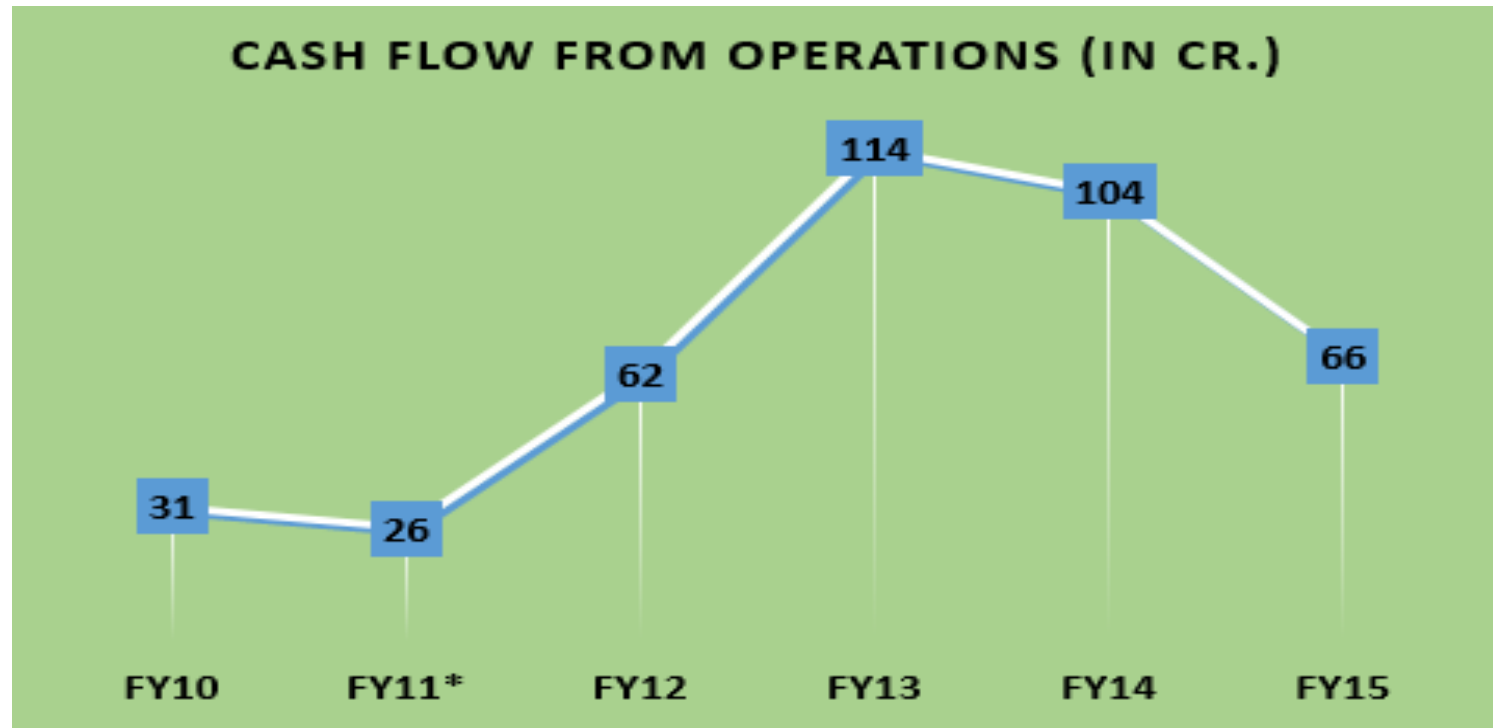
High Capital Efficient Business



* FY11 includes fifteen months of revenue

- The Capital efficient numbers of Accelya's business shows the efficiency of the business model its operating in. Though it is operating in IT industry, the company's business model and services are unique compared to any typical IT player.
- We expect the ROE and ROCE numbers are sustainable in the same range due to its high competitive strengths. We expect theses numbers to improve further from the current stage with increasing in growth and turn around in global economic situations.

High cash generating business



* FY11 includes fifteen months of revenue

Company is able to convert most of the profits in to cash which can be observed form the above graph. The cash generating capacity of the company has improved significantly from 31cr in FY10 to 100+cr. in FY13 and FY14. With improvement in the external business environment and expected pickup in the airlines outsourcing business, company's performance will improve further. We expect the cash flow to increase further in the comping years.

Risks & Concerns

Increasing competition:

The airline and travel solutions business is seeing a lot of interest in recent times. Many new providers and existing technology vendors are foraying into the business. Some of its domestic competitors include NIIT Technologies, WNS-Lufthansa while globally, Acca, Lufthansa, Mercator (subsidiary of Emirates) – Sutherland and Ciecom are its major competitors.

Uncertain economic environment:

Globally, economies are facing pressures of sustenance and growth. The airline and travel industry is amongst the first to be impacted by any major economic or political situations. Thus, it becomes imperative to safeguard against major business environment changes. By offering customers a transaction-based pricing model, ensuring steady annuity revenue and minimizing upfront capital investments for our customers, Accelya Kale can try and mitigate risk of huge business environment fluctuations.

High Forex Exposure:

Accelya Kale's international business currently accounts for ~80% of its total revenues on a standalone basis & is likely to be a major growth driver going forward. This exposes the company to the risk of volatility in foreign currency rates, which could impact its margins.

High Client Concentration:

The company derives majority of its revenues from few large clients. Excessive exposure to a few large clients has the potential to impact profitability and to increase credit risk.

Conclusion

Indian stock market is witnessing high volatility with uncertainties surrounded by passing of GST bill in the parliament, US fed rate hike impact and ongoing downward spiral in the commodity prices. Though the large cap stocks have corrected decently in the present market, the mid cap segment is still trading at high valuations after the strong rally in the last couple of years. **It became very difficult find out the high conviction stocks (Multibaggers) in the present market conditions. Here Accelya Kale offers different story with huge dividend yield and good growth opportunity.**

In the recent days the airline stocks have created much hype in the market with the recent Indigo IPO and well known investor taking stakes in airline stocks. Everyone knows that the airline industry will grow but we are skeptical about the way these businesses operates. In the entire airline industry value chain the two segments - Outsourcing and travel agents businesses have been highly profitable. **Accelya Kale - the financial solutions provider for the global airline industry belongs to the same outsourcing segment. The profitability and efficiency of the business can be observed form the Margin numbers (EBITDA - 40%+, EBIT - 35%+) and ROE of 80% & ROCE of 100%+.**

Compared to other airlines stocks, Aceelya is trading at attractive valuations. At the current market price stock is available at OCF yield of 7% and PE of 21x. We believe that the stock which is providing dividend yield of nearly 5% is very attractive to look for in the present volatile market and can be a good stock in the portfolio for next three to five years.

THANK YOU