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VALUE PICK

CHASING VALUE, NOT PRICES

April 2017

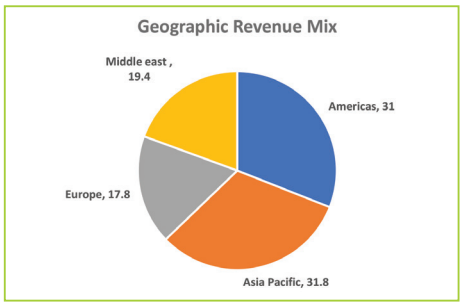
Company Name	:	**ACCELYA KALE**
BSE Code	:	**532268**
Time Duration	:	**1 year**
CMP	:	**₹1468 (as on 13 April, 2017)**
Target Price	:	**₹1860**

The Value Pick for the month of April is Accelya Kale, a niche player providing IT service to the aviation industry. The company has a high ROE of 72.7% and has grown revenues on the TTM basis at 13.78% and net profit at 37.2%. We see the key levers for the company's growth to be increase in aviation domestically and internationally, median crude oil prices and its pay-per-use cost-effective business model. We see the company trading at FY18E P/E of 20x and hence expect ~6% upside over one year.

Accelya provides airlines insights on airline sales performance, agent performance, route performance and actively helps them to identify potential for growth. It also helps airlines manage agent incentive program for higher agent satisfaction.

Growth in aviation industry

We see that the company has a defined focus toward low cost carriers (LCC). As per IATA, LCCs hold 26% share in Asia Pacific, 54% in south east Asia and 26% globally. Also, there has been shift in LCC's operating model from just being short haul networks to long haul too due to introduction of energy efficient planes. Also, rather than catering to only leisure travel, they are now being used for business travel destinations too. We see that the company is well-diversified in terms of its exposure to regions across globe.



Also, domestically, India is witnessing major growth in passenger traffic and there has been an increase in price war among the LCCs. However, the higher passenger traffic has enabled the carriers to add capacity, routes and increase fleet size. Its primary product includes REVERA (Revenue Accounting Solution), FinesseCostTM (Cost Management Solution), FinesseMBS (Miscellaneous Billing Solution), FinesseFPSTM (Flight Profitability Solution) and Audit and Revenue Recovery Service. The company also has a tie-up with IATA for providing industry solutions.

For LCCs, the company has REVERA and it already has 8 airlines as customers.

Pay-per-use business model – Aviation industry is cyclical and being high capex in nature, airlines are in constant need of high working capital. Accelya's business model of pay-per-use helps airlines to pay as per the usage rather than one bulk cost. This helps airlines to lighten burden on working capital and cost varies as per the peak loads. For the company, this model provides revenue visibility and helps it to grow.

We can see that the company has been able to improve its receivable days to 40.86 against 54.7 in FY12 and also payable days have increased to 24.6 as against 18.6 in FY12.

New revenue line – Analytics and consulting solutions

The company, deriving technology leverage from its parent Accelya, introduced analytics and consulting solutions in FY16 which will help airlines improve their revenues and profitability.

Higher focus on America and Middle East & Africa

The US is the largest airline market and, therefore, the company has substantially increased its investment in the US in 2016. We believe that the current political changes in the US will only temporary impact travel. Also, the Middle East and Asia are expected to see fastest growth.

In terms of revenue, the company has seen highest growth in Asia Pacific in FY16, which grew by 29.2%.

Financial Performance

The revenue of Q3FY17 increased from Rs 83.38 cr to Rs 88.14 on a YoY basis. Operating profit margin and net profit margin increased in Q3FY17 by 4.12% and 2%, respectively, on a YoY basis. As compared to its peers, it enjoys high returns on equity and capital employed. The TTM ROE is 72.77% and TTM ROCE is 149.62%, which reflects superior performance than its peers. The company is virtually debt-free.

It has grown profit at a CAGR of 29.22% and 37.19% on a TTM basis. The TTM CAGR revenue growth is 13.78%. The revenue growth was aided by buoyant passenger or air cargo traffic volumes.

The company has been able to maintain a healthy dividend pay-out of 82.8%, which shows its commitment to reward investors and remain investor-friendly.

Valuation

The stock is trading at FY18E P/E of 20x on FY18E EPS of Rs 60.5, which looks attractive at the current level as compared to its peers. EV/EBITDA at 13.65x stands strong as against its peers. We recommend investors to **BUY** the scrip with a target of Rs.1860 over a year.

We urge investor to invest in tranches, as we expect for the next six months, the IT sector outlook will be impacted by the strengthening of the currency and crude oil prices.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201606	201506	201406	201306	201206
Net Sales	340.98	302.82	316.74	303.84	218.76
Total Income	350.55	308.54	321.53	308.63	226.66
Total Expenditure	208.78	187.99	179.70	173.47	158.34
PBIDT	141.77	120.55	141.83	135.16	68.32
PAT	83.02	67.40	83.93	84.38	40.79
Dividend %	450.00	360.00	490.00	700.00	235.00
Adj. EPS(Rs)	55.62	45.15	56.23	56.53	27.32

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201612	201609	Q on Q Var%	201512	Y on Y Var%
Net Sales	87.81	92.53	-5.11	83.11	5.65
Total Expenditure	52.91	54.25	-2.47	52.29	1.17
PBIDT (Excl OI)	35.23	38.59	-8.71	31.09	13.31
PAT	22.30	24.39	-8.57	19.43	14.78
PBIDTM% (Excl OI)	39.97	41.57	-3.85	37.29	7.19
PBIDTM%	42.75	44.96	-4.92	40.07	6.69
PATM%	25.30	26.27	-3.69	23.30	8.58
Adj. EPS(Rs)	14.94	16.34	-8.57	13.02	14.75