

## Adverse impact on airlines leads to poor Q4 performance

Accelya reported dismal Q4FY20 (June ending) results mainly led by exposure to airline sector. Revenues fell 44.7% QoQ, 42.4% YoY to ₹ 62.8 crore. EBIT margins were at 4.5% vs. 28.9% in Q3FY20. PAT declined 85.0% QoQ to ₹ 3.6 crore. Due to challenging times, the company has not declared a dividend and will conserve cash.

### Revenue revival expected in FY22E

Accelya partners with airlines right from the time a ticket or an airway bill is issued, all the way through its entire life cycle, until the data is converted into actionable decision support. The major product offering of the company is revenue accounting & assurance that forms the largest portion of overall revenue and has a niche product offering called 'Revera'. Since majority of its revenues is from airline vertical (that was severely impacted by the ongoing crisis), we expect revenues to dip 11% YoY in FY21E. However, we expect revenues to improve QoQ based on a gradual opening up of economies and improved volumes in June 2020 vs. April & May 2020. In addition, we expect the company to reach Q3FY20 revenue level in Q4FY21E. Further, we expect a healthy recovery in the airline sector coupled with cross-selling opportunities with Fairlogix to drive FY22E revenues. Hence, expect revenues to improve 19% YoY in FY22E.

### Cost rationalisation to drive margins

Accelya has rationalised its cost in the current quarter by reduction in salaries & bonus, lower travel cost, lower discretionary spend and lower facility cost. While some of the cost are expected to return, we expect some cost rationalisation benefit to stay with the company. Hence, we expect EBIT margins to improve QoQ in FY21E and expect the benefit of cost rationalisation to be visible in FY22E (up 740 bps YoY to 32.4%).

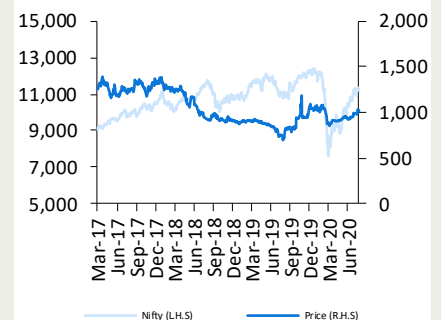
### Valuation & Outlook

The company reported a subdued Q4FY20 performance. However, we expect Accelya to witness improved revenues on a QoQ basis based on a gradual opening up of economies and improved volumes in June 2020 vs. April & May 2020. Further, we expect a healthy recovery in the airline sector coupled with cross selling opportunities from Fairlogix to drive FY22E revenues (up 19% YoY). In addition, we expect margins to witness a healthy improvement in FY22E based on cost rationalisation and improvement in revenues. As a result, we revise our EPS estimates upwards from ₹ 38 and 53 in FY21E & FY22E to ₹ 45 and ₹ 69 in FY21E & FY22E, respectively. Hence, we revise our target price upwards to ₹ 1200/ share (17x FY22E EPS, 3.5x FY22E sales) and upgrade the stock from REDUCE to **BUY** recommendation.

#### Particulars

Particulars	Amount
Market Capitalization (₹Crore)	1,543.6
Debt (₹Crore)	0.0
Cash and Cash Equivalent (₹ Crore)	75.3
Enterprise Value (₹Crore)	1,501.3
52 Week High / Low (₹)	1247 / 699
Equity Capital (₹Crore)	15
Face Value	₹10

#### Price Performance



#### Key Highlights

- Expect company to witness improved revenues on QoQ basis
- Expect FY22E to witness improved margins led by cost rationalisation
- Upgrade from REDUCE to BUY rating with target price of ₹ 1200

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#### Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	FY(20-22E)
Net Sales	381	433	412	365	434	2.6%
EBITDA	148	170	152	124	174	6.7%
Margins (%)	38.9	39.2	37.0	34.0	40.0	
Net Profit	89	106	87	67	102	8.6%
EPS (₹)	59.7	71.3	58.2	45.1	68.6	
P/E	17.3	14.5	17.8	22.9	15.1	
RoNW (%)	49.6	53.8	35.5	24.5	35.2	
RoCE (%)	71.8	75.9	41.5	28.5	42.0	

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end June)	FY19	FY20	FY21E	FY22E	
<b>Total Revenues</b>	<b>433</b>	<b>412</b>	<b>365</b>	<b>434</b>	
Growth (%)	13.5	(4.8)	(11.4)	19.0	
Total Operating Expenditure	263	260	241	260	
<b>EBITDA</b>	<b>170</b>	<b>152</b>	<b>124</b>	<b>174</b>	
Growth (%)	14.5	(10.2)	(18.6)	39.9	
Depreciation & Amortization	17	32	33	33	
Other Income	9	6	8	7	
Interest	-	(6)	(6)	(6)	
PBT before Exceptional Items	162	120	94	142	
Growth (%)	17.1	(25.7)	(22.2)	52.0	
Tax	56	34	26	40	
PAT before Exceptional Items	106	87	67	102	
Exceptional items	-	-	-	-	
PAT before MI	106	87	67	102	
Minority Int & Pft. from assoc	-	-	-	-	
<b>PAT</b>	<b>106</b>	<b>87</b>	<b>67</b>	<b>102</b>	
Growth (%)	19	(18)	(22)	52	
EPS	71	58	45	69	
EPS (Growth %)	19.3	(18.4)	(22.4)	52.0	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end June)	FY19	FY20	FY21E	FY22E	
<b>Net profit before Tax</b>	<b>162</b>	<b>120</b>	<b>94</b>	<b>142</b>	
Depreciation & Amortization	17	32	33	33	
WC changes	(26)	7	11	(15)	
Other non cash adju.	(66)	(28)	(21)	(34)	
<b>CF from operations</b>	<b>87</b>	<b>131</b>	<b>116</b>	<b>126</b>	
Capital expenditure	(25)	(47)	(36)	(44)	
Δ in investments	20	2	(0)	-	
Other investing cash flow	1	(16)	-	-	
<b>CF from investing Activities</b>	<b>(3)</b>	<b>(61)</b>	<b>(37)</b>	<b>(44)</b>	
Issue of equity	-	-	-	-	
Δ in debt funds	-	(5)	-	-	
Dividends paid	(86)	(43)	(37)	(87)	
Other financing cash flow	-	(6)	(6)	(6)	
<b>CF from Financial Activities</b>	<b>(86)</b>	<b>(53)</b>	<b>(43)</b>	<b>(93)</b>	
Δ in cash and cash bank	(3)	17	37	(10)	
Effect of exchange rate	0	1	-	-	
Opening cash	28	26	60	98	
<b>Closing cash &amp; Bank</b>	<b>26</b>	<b>60</b>	<b>98</b>	<b>87</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
(Year-end June)	FY19	FY20	FY21E	FY22E	
Equity	15	15	15	15	
Reserves & Surplus	183	230	260	275	
Networth	198	245	275	290	
Minority Interest	-	-	-	-	
Liabilities & provisions	4	45	45	45	
<b>Source of funds</b>	<b>202</b>	<b>289</b>	<b>320</b>	<b>335</b>	
Net fixed assets + CWIP	44	74	77	88	
Goodwill	28	30	30	30	
Other non current assets	20	62	56	64	
Loans and advances	2	0	0	0	
Current Investments	17	15	15	15	
Debtors	88	88	77	90	
Cash & Cash equivalents	26	60	98	87	
Other current assets	49	41	38	46	
Current liabilities	68	73	64	77	
Provisions	4	7	6	8	
<b>Application of funds</b>	<b>202</b>	<b>289</b>	<b>320</b>	<b>335</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore			
(Year-end June)	FY19	FY20	FY21E	FY22E	
<b>Per share data (₹)</b>					
EPS-diluted	71.3	58.2	45.1	68.6	
Cash per share	17.1	40.5	65.5	58.5	
BV	132.3	164.0	184.3	194.6	
DPS	32.0	-	24.8	58.3	
<b>Operating Ratios (%)</b>					
EBITDA Margin	39.2	37.0	34.0	40.0	
PBT Margin	37.4	29.2	25.6	32.8	
PAT Margin	24.6	21.1	18.5	23.6	
<b>Return Ratios (%)</b>					
RoNW	53.8	35.5	24.5	35.2	
RoCE	75.9	41.5	28.5	42.0	
RoIC	96.6	56.1	44.1	60.4	
<b>Valuation Ratios (x)</b>					
P/E	14.5	17.8	22.9	15.1	
EV / EBITDA	8.8	9.6	11.5	8.3	
Price to Book Value	7.8	6.3	5.6	5.3	
<b>Turnover Ratios</b>					
Debtor days	75	78	77	76	
Creditors days	23	31	31	31	
<b>Solvency Ratios</b>					
Total Debt / E equity	-	-	-	-	
Current Ratio	2.2	2.4	2.4	2.4	
Quick Ratio	2.2	2.4	2.4	2.4	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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