

8K Miles Software Services Limited

July 13 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term/Short-term Bank Facilities- Over Draft	10.00	CARE A-/ CARE A2+ (Single A Minus/A Two Plus; Credit Watch with Developing implications)	Placed on credit watch with developing implications
Long Term Bank Facilities- Term Loan	25.00	CARE A- (Single A Minus; Credit Watch with Developing implications)	Placed on credit watch with developing implications
Long term Bank Facility- Proposed CC facility	15.00	CARE A- (Single A Minus; Credit Watch with Developing implications)	Placed on credit watch with developing implications
Total Facilities	50.00 (Rupees Fifty crore only)		
Proposed Non-Convertible Debentures	50 (Rupees Fifty crore only)	CARE A- (Single A Minus; Credit Watch with Developing implications)	Placed on credit watch with developing implications

Rating Rationale

The rating assigned to the bank facilities and instrument of 8K Miles Software Services Limited (8K Miles) has been placed on credit watch with developing implications. The rating action was on account of non-publishing of consolidated results by the company on the date initially notified in the stock exchanges. Further, there was significant decline in the share price and market capitalization of the company in June 2018. CARE is monitoring further developments with respect to above mentioned events and would take up review of rating once the company releases its consolidated result as per the latest stock exchange filings.

The ratings continue to derive strength from the experience of the promoters in cloud computing vertical and domain expertise added through various acquisitions over the years. The ratings further draw strength from comfortable financial risk profile of 8K Miles marked by robust revenue growth over the years with healthy profitability and comfortable capital structure and debt coverage indicators.

The above strengths are partially offset by the concentration of revenue to a few geographies which in turn could lead to the risk of exposure to adverse economic conditions and government policies in the end-user market, vulnerability of profitability to foreign exchange fluctuations and the intense competition in the IT service industry.

The ability of the company to maintain its revenue growth, profitability while spreading its base to a larger clientele and geography would remain the key rating sensitivity. Any further unanticipated debt-funded acquisition by the company which may impact the liquidity and weigh negatively on the credit profile of the company would remain the key rating monitorable.

Detailed description of the key rating drivers

¹Complete definition of the ratings assigned is available at www.careratings.com and other CARE publications.

Non Publishing of Consolidated Result coupled with significant decline in share price

The company while declaring its standalone result vide its press release dated May 30 2018 had informed the Exchanges about the publishing of their consolidated results around June 22 2018 on account of migration to Ind-AS accounting standard for first time. However, the company didn't publish the consolidated result on the notified date and further didn't communicate the reason for the delay in the above event to the exchange post June 22 2018 till July 01 2018. Further there was significant decline in stock price and market capitalization in the same period. The company vide its press release dated July 02 2018 has informed the exchanges about the board meeting of the company to consider and approve the consolidated results of 2017-18 on July 17 2018. CARE is monitoring further developments with respect to above mentioned events and would take up review of rating when consolidated results of the company are available.

Key Rating Strengths***Experienced Promoters***

Mr. Venkatachari Suresh, is the founder and also the Managing Director and CEO of the company and has more than 26 years of experience in the outsourcing & consulting industry and drives the company's strategy and business development function. Mr. R. S. Ramani, another promoter is the whole time director and CFO of the company with 29+ years of experience and manages the Finance, Accounting, Auditing and operations. Mr. Harish Ganesan, is the Chief Technology Officer (CTO), Co-Founder of 8K Miles and has more than 17 years of experience in architecting and developing cloud computing, e-commerce and mobile application systems. Furthermore, the company retains the promoters and employees of the acquired companies to benefit from their experience in the system.

Proprietary products and tie-up with public cloud enterprises for technological support

The company has tied up as a service partner with public cloud system providers such as Amazon Web Services, Microsoft Azure, IBM, Google Cloud Platform and CA Technologies. 8K Miles is one of the preferred Managed Service Partner for Amazon cloud products Since its inception, the company has developed softwares in-house such as Cloud Ez Solution, Federal Identity Management Systems on Multi-Domain Identity Service (MISP) and Cloud ID Exchange (CIE) platforms, among others, which are used in highly regulated industries like life science, healthcare, Banking Financial Services and Insurance (BFSI) and manufacturing entities.

Incremental domain expertise through various acquisitions

From the year 2013, 8K Miles has also been acquiring companies in the USA in order to boost its product portfolio by acquiring expertise in certain systems. Products thus acquired were merged with existing portfolio to cater to existing and new clients. Synergies derived from these acquisitions have helped company boost its revenue within a period of three years. Acquisitions by 8K Miles in the past were made through equity-swap, convertible share warrants and/or through internal accruals. During FY17, the company has acquired "Cornerstone Advisors" which helps clients implement complex inpatient-outpatient, ambulatory clinical and financial systems.

For any further acquisition in the future, 8K Miles has sought to raise debt of Rs. 50 crore via Non-Convertible Debentures (NCDs). Amount raised through NCDs will be passed on as unsecured loans to its subsidiary in USA who would use this amount to fund the acquisitions. There will be a back-to-back arrangement with the US subsidiary with respect to the principal and interest repayment of the debt and hence the repayments will depend on the payment from US subsidiary.

Robust growth in revenue

Since the company has been investing in cloud computing vertical, 8k miles got a head start when companies across the spectrum started increasing scalability of their analytics expenditure by migrating on to public cloud services such as Amazon and Microsoft. Addition of systems and products through acquisition has helped the company acquire new clientele and generate incremental revenue from existing clients. The company generated Rs.534 crore of revenue in FY17 showing an increase by 96.4% as compared to Rs.272.14 crore in FY16. During 9MFY18, the company continued to witness robust increase in its operating revenue on YoY basis to Rs.631.36 crore from Rs. 367.88 crore in 9MFY17.

Comfortable financial risk profile

Profitability of the company remained healthy with PBILDT margin of 34.86% in FY17 as compared to 32.60% in FY16 coupled with PAT margin which witnessed an increasing trend from 18.45% in FY15 to 23.50% in FY17. The capital structure of 8K Miles remained comfortable with less dependence on external borrowings and high internal accruals leading to accretion to reserves. The tangible net worth as on March 31, 2017 stood at Rs.420.90 crore, against which total borrowings stood at Rs.32.55 crore, out of which Rs.25 crore is term loan taken for acquisition of Cornerstone. The solvency of the company continued to remain comfortable marked by overall gearing ratio of 0.08 times with total debt/GCA at 0.22x as on March 31, 2017. 8K Miles has healthy free cash and bank balance on consolidated basis of Rs.120.99 crore as on September 30, 2017 which has increased from Rs.90.73 crore as on March 31, 2017

Key Rating Weakness***Geographical concentration risk albeit low customer concentration***

Business of the company is spread across USA, Canada, India and Singapore. However, around 80% of the consolidated revenue in 2017 was from North America. Furthermore, around 46% of consolidated revenue for 8K Miles was from clients in highly regulated Life Sciences, Pharmaceuticals and Healthcare sectors followed by E-commerce and manufacturing industry with share of 12% and 31% respectively.

The client portfolio for the company is spread across different domains leading to lower client concentration risk. However, the high dependence on North America market for its income exposes 8K Miles to geographical concentration risk, especially with any adverse regulatory changes in policy/regulation in the region.

Foreign exchange fluctuation risk

The company's revenues are largely denominated in US Dollars (USD). Majority of the cost payable (more than 90%) is also denominated in US dollars; hence, fluctuations in foreign currency exchange rates will have marginal impact on company's profitability. Currently, the company does not have any formal hedging policy.

Presence in industry characterised by growing competition from IT Majors and other small and medium players

The growing competition exposes the company to inherent industry risks such as ability to bag large-sized contracts and attrition of personnel, which may result in lower growth rates. The moderate scale of operations also restricts financial flexibility to an extent. Furthermore, the company remains exposed to industry specific risks of high attrition rates, wage inflation and regulatory framework which can also put pressure on the margins.

Analytical approach

Consolidated view on 8K miles and its subsidiaries is taken as they are under the common management and have same business operations.

Applicable Criteria:

[Criteria for Short Term Instruments](#)

[Financials Ratio-Non Financial Sector](#)

[Criteria on Assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria on Factoring Linkages in Ratings](#)

[Criteria on Service Sector Companies](#)

About the Company

8K Miles was originally promoted by Mr Venkatachari Suresh, Mr R. S. Ramani and Mr M. V Bhaskar in the year 2008 with a view to provide cloud computing and related services to companies in United States of America (USA). The company also provides software design and development, web services, consulting and other services through its various subsidiaries. Over the years 8K Miles has developed various proprietary platforms such as Cloud Ez Solution, Federal Identity Management systems on Multi-Domain Identity Service (MISP) and Cloud ID Exchange (CIE) platform among others which helps the company provide cloud based solution to its clients. The company has technological partnerships with Amazon Web Services, Microsoft Azure, IBM, Google Cloud Platform and CA Technologies. They are one of the preferred managed service partners for Amazon Web Services.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	272.14	534.53
PBILDT	88.73	186.34
PAT	53.24	125.60
Overall gearing (times)	0.02	0.08
Interest coverage (times)	Very high	

Status of Non-Cooperation with other CRA: Not applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr. Arunava Paul

Tel: 022-67543667

Email: arunava.paul@careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Bank Overdraft	-	-	-	10.00	CARE A- / CARE A2+ (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE A- (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	Jan 2020	25.00	CARE A- (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	July 09, 2018	-	--	50.00	CARE A- (Under Credit watch with Developing Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	50.00	CARE A- (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable (22-Mar-18) 2)CARE A-; Stable (13-Feb-18)	1)CARE A-; Stable (29-Nov-16)	-
2.	Fund-based - LT/ ST-Bank Overdraft	LT/ST	10.00	CARE A- / CARE A2+ (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable / CARE A2+ (22-Mar-18) 2)CARE A-; Stable / CARE A2+ (13-Feb-18)	1)CARE A-; Stable / CARE A2+ (29-Nov-16)	-
3.	Fund-based - LT-Cash Credit	LT	15.00	CARE A- (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable (22-Mar-18)	-	-
4.	Fund-based - LT-Term Loan	LT	25.00	CARE A- (Under Credit watch with Developing Implications)	-	1)CARE A-; Stable (22-Mar-18)	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com