

NOVEMBER 29, 2016

CARE ASSIGNS 'CARE A- ; STABLE' AND 'CARE A2+' RATINGS TO THE PROPOSED INSTRUMENT AND BANK FACILITIES OF 8K MILES SOFTWARE SERVICES LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term/Short-term Bank Facilities- Over Draft	10	CARE A-; Stable/ CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Assigned
Total Facilities	10 (Rupees Ten crore only)		
Proposed Non-convertible Debentures	50 (Rupees Fifty crore only)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned

Rating Rationale

The ratings assigned to the bank facilities and Instrument of 8K Miles Software Services Limited (8K Miles) positively factor experience of the promoters in the Information Technology (IT) service industry; especially cloud computing vertical. The ratings also factor domain expertise added through various acquisitions over the years. The ratings further draw strength from comfortable financial risk profile of 8K Miles marked by growing scale of operations with healthy profitability and low gearing levels.

The ratings, however, are constrained 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, high collection period, vulnerability of profitability to foreign exchange fluctuations and the intense competition in the IT service industry. The ratings also take into account the expected rise in the debt levels to fund new acquisitions in the near future.

The ability of the company to maintain its revenue growth while spreading its base to a larger clientele and geography, retain skilled employees, maintain its existing profitability, capital structure and expedite collections from its customers would remain the key rating sensitivities. Furthermore, successful integration of companies to be acquired within time and cost envisaged will also be a key rating sensitivity. Any further debt-funded acquisition by the company (not considered by CARE in its analysis) which may impact the liquidity may weigh negatively on the credit profile of the company.

Background

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). During FY11 (refers to the period April 1 to March 31), the promoters in their individual capacity acquired 72% equity share capital in a BSE listed firm P. M Strips Limited and changed the name to "8K Miles Software Services Limited".

Current engagements of 8K Miles include migration of existing enterprise-wide software applications to public cloud systems with expertise in Security, Automation, Analytics and Big Data. 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.

Business of the company is spread across USA, Canada, India, United Arab Emirates and Singapore; however, around 80% of the consolidated revenue in FY16 was from North America. Looking at the industry services, around 43% of consolidated revenue of 8K Miles was from clients in highly regulated Life Sciences, Pharmaceuticals and Healthcare sectors followed by E-commerce and manufacturing industry with share of 14% each.

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

At consolidated level, Profit After Tax (PAT) of 8K Miles Limited stood at Rs.53 crore on total operating income of Rs.272 crore in FY16 against PAT of Rs.23 crore on total operating income of Rs.125 crore in FY15. In H1FY17, 8k Miles reported net profit of Rs.53 crore on total operating income of Rs.226 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating 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.

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