SecureKloud Technologies Limited

January 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	17.12 (Reduced from 18.78)	CARE C; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of SecureKloud Technologies Limited (SecureKloud) takes into account the modest operational performance as reflected by continuous operating losses, modest scale of operations with geographical concentration especially in the light of slow growth in the key market and competitive nature of industry. The ratings continues to be constrained by weak financial risk profile marked by negative tangible net-worth and tight liquidity profile. The rating takes into account impact of the order by the regulator SEBI on governance issues and irregularities in past financials against the company.

The rating, however, derives strength from the domain and industry expertise of the company and its tie-ups with public cloud enterprises.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profitability with PBILDT margins above 15%
- Reduction in client and geographical concentration risk
- Improvement in liquidity position
- Resolution of governance related issues and strengthening of the corporate governance architecture in the company and management

Negative factors

- Any further tightening of liquidity position
- Further directions from regulatory authorities impacting the operations of the company

Analytical approach: Consolidated

SecureKloud and its subsidiaries are under the common management and have same business operations. The list of subsidiaries is given below:

Subsidiaries	**Shareholding as on March 31, 2023**
SecureKloud Technologies Inc., USA	60.70%
Blockedge Technologies Inc., USA	100%
Mentor Minds Solutions & Services Inc., USA	100%
Healthcare Triangle Private Limited, India	99.99%
Step-down Subsidiaries	
Healthcare Triangle Inc., USA	59.82%
Devcool Inc., USA	100%
SecureKloud Technologies Inc., Canada	100%
Serj Solutions Inc., USA	100%
Nexage Technologies Inc., USA	100%

Outlook: Stable

CARE Ratings expects that the company would continue to benefit from its domain and industry expertise.

Key weaknesses

Continued operating losses:

The company has been incurring losses at operational level due to increased R&D spending over the past 2 years for the platform business. The company has spent about ₹ 91 crore over FY21 and FY22 which was booked as expenses in P&L account. The revenue from this R&D activity is not as envisaged due to the platform model's acceptance in the healthcare segment being low leading to lower revenue and continued operating losses in H1FY24. However, with the rationalization of R&D and reduction in discretionary spends, the operational losses have declined in H1FY24.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Further, majority of the company's employees are based out of the US due to which the employee costs have been high. The company has cut down on employees in FY24. However, with the scale continuing to being modest, the employee utilisation continues to remain low and the high employee costs continue to strain the profitability of the company.

Modest financial risk profile marked by negative tangible networth:
The company's tangible net-worth has also seen an erosion after the write-off ₹ 624.95 crore of capitalised internally developed software in FY20. Due to continuous operating losses, the tangible net-worth has continued to remain negative in FY23 and H1FY24.
The company has a total debt of ₹ 110.45 crore as on March 31, 2023, out of which ₹ 31.37 crore is in the form of unsecured loans form the promoter. The company, through its step-down subsidiary, has raised fund by issue of convertible promissory notes for a value of USD 5.2 mn and the company has already received the first tranche of USD 2 mn in December 2023. This is expected to be utilised towards repayment of debt in the subsidiary book and working capital requirements. In case of repayment of these notes through cash instead of through share issue, the financial position would be further strained.

Geographical concentration
The company caters to USA market primarily. 98% of the consolidated revenue is from the USA for the past two years. This high dependence on USA for revenue exposes the company to geographical concentration risk especially with higher employee costs. A slowdown in the US economy would impact the IT spending of the clients in these geographies thereby impacting the company. However, presence in the healthcare segment would mitigate this to a certain extent. The company has been taking efforts to offshore certain business and diversify the geographical presence with company starting operations in Singapore as well.

Presence in highly competitive industry:
The company has a relatively moderate scale of operations in a highly competitive industry which would restrict the company's bargaining power with high value clients. It faces competition from IT giants and other small-scale players. This leads to inherent industry risks like inability to undertake large sized projects, employee attrition and wage inflation. The company is also exposed to risks of regulatory framework and immigration policy changes in USA. All the above would put pressure on the margins of the company.

Impact of SEBI Order and governance issues:
Pursuant to receipt of certain complaints alleging inter-alia financial mis-reporting/irregularities by promoters and management of the Company and the resignation of the Company's statutory auditor, viz. Deloitte Haskins and Sells citing various corporate governance issues including fraud relating to irregularities and inconsistencies in financial statements and books of accounts of the Company, SEBI had initiated an investigation and Grant Thornton was appointed as forensic auditor. In this regard, SEBI has issued a final order which gave certain directives and penalties to the company and its officials - Mr. Suresh Venkatachari, Mr. R S Ramani and Mr. Gurumurthy Jayaraman. Following this order, Mr. Suresh Venkatachari, promoter, had stepped down from the position of CEO. The company had sought appeal against this order in SAT, however, no order has been passed yet. Mr Suresh continues to be promoter and main shareholder in the company.

Key strengths

Domain and Industry expertise coupled with tie-ups with public cloud enterprises:
SecureKloud is focussed on cloud transformation and data pipeline management services. Since its inception, the company has developed in-house patented softwares such as CloudEz platform and has continued to develop technology platforms like DataEz, readbl.ai, blockedge.io and CloudAuth etc. Furthermore, the company has also tied up as a service partner with public cloud system providers such as AWS, Azure, Google Cloud Services, IBM Smart Cloud and VMWare. Being in a highly regulated vertical like healthcare, SecureKloud also has expertise and has been certified in regulatory compliances such as HIPAA (Health Insurance Portability and Accountability Act), HITRUST and GxP.

Liquidity: Poor

The liquidity of the company remained stretched with high working capital utilisation at about 94% for the twelve months ended November 2023. At consolidated level, the company's cash accruals remain negative and the free cash and balances also remain low at about ₹ 1.99 crore as on September 30, 2023. At a standalone level, the company has a positive accrual of about ₹ 4.70 crore in H1FY24 as against a full year repayment of about ₹1 crore.

The company's long term debt obligation as on March 31, 2023, stood at ₹ 38.83 crore out of which ₹ 31.37 crore is unsecured loan from its erstrwhile promoter, Mr. R S Ramani. The company had reported delays in payments with regards to the loan from Mr. R S Ramani from September 2022, however it has been regular in servicing the debt obligations to bank.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Service Sector Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Information Technology	Information Technology	IT - Services	IT Enabled Services

SecureKloud Technologies Limited (SecureKloud) was originally promoted as 8K Miles Software Services Limited by Mr Venkatachari Suresh, Mr R. S. Ramani and Mr M. V Bhaskar in the year 2008. The company provides software services (strategic advisory, implementation, and development services), managed services and support (post implementation support and cloud hosting services) and platform services (solutions delivery model). 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total operating income	380.21	460.12	192.99
PBILDT	-81.46	-69.48	-16.86
PAT	-97.92	-98.76	-32.99
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	NM	NM	NM

A: Audited; Prov.: Provisional; NM: Not meaningful; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	15.00	CARE C; Stable
Fund-based - LT-Term Loan		-	-	Feb 15, 2027	2.12	CARE C; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-Bank Overdraft	LT/ST*	-	-	-	-	-	1)Withdrawn (28-Dec-20)
2	Fund-based - LT-Cash Credit	LT	15.00	CARE C; Stable	-	1)CARE C; Stable (23-Jan-23)	1)CARE C; Stable (15-Dec-21)	1)CARE C; Stable (28-Dec-20)
3	Fund-based - LT-Term Loan	LT	2.12	CARE C; Stable	-	1)CARE C; Stable (23-Jan-23)	1)CARE C; Stable (15-Dec-21)	1)CARE C; Stable (28-Dec-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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