

SecureCloud Technologies Limited

January 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	18.78 (Reduced from 19.86)	CARE C; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of SecureCloud Technologies Limited (SecureCloud) are constrained by moderate revenues, negative tangible net-worth, continued operational losses, geographical concentration risk and competitive nature of industry. The rating also takes into account the receipt of order from the regulator SEBI on corporate governance issues and irregularities in the financial statements of the past.

The rating, however, derives strength from the domain and industry expertise of the company and 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

SecureCloud 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, 2022
SecureCloud Technologies Inc., USA	65.18%
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	71.76%
Devcool Inc., USA	100%
SecureCloud Technologies Inc., Canada	100%
Serj Solutions Inc., USA	100%
Nexage Technologies Inc., USA	100%

Key weaknesses

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. Gurusurthy Jayaraman. Following this order, Mr. Suresh Venkatachari, promoter has stepped down as the CEO

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

and will now hold the position of President without any involvement in any policy decision making. The impact of the order and penalties on operations and liquidity is yet to be seen and continues to be critical from a credit perspective.

Operational losses in FY22 and H1FY23:

The company has been incurring losses at operational level due to increased R&D spending while the revenue from the same is expected to accrue over a period of time. The company has spent about ₹ 50 crore in R&D in FY22 as against ₹ 27 crore in FY21. Further, employee costs have also seen a significant increase over the past 2 years. With the scale continuing to be modest, the increase in costs has led to losses for the company.

Modest financial risk profile marked by negative tangible net-worth:

The company's scale remained moderate with a revenue of ₹ 350-400 crore over the past three years. The company's Tangible Net-worth has also seen an erosion after the write-off ₹ 624.95 crore of exceptional item in its Profit and Loss statement in FY20. The major portion of the write-off was ₹ 520.65 crore of internally developed software which was earlier being capitalized. While the tangible net-worth has seen some improvement in FY22 and FY23 with the IPO and share issues in its step-down subsidiary in US (Healthcare Triangle Inc; HCTI) and conversion of share warrants of Mr Suresh Venkatachari, the Tangible Net-worth continues to be negative due to continued losses. The net-worth including intangible assets and goodwill was at ₹ 107.30 crore as on March 31, 2022 as against ₹ 40.97 crore as on March 31, 2021.

Concentration in terms of geography

The company caters to USA market primarily. In FY22, 98% of the consolidated revenue is from the USA as against 95% in FY20 and 89% in FY19. This high dependence on USA for revenue exposes the company to geographical concentration risk especially with immigration issues and 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 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 non-ability 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 of the above would put pressure on the margins of the company.

Key strengths**Domain and Industry expertise coupled with tie-ups with public cloud enterprises:**

SecureCloud is focussed in 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, SecureCloud also has expertise and certified in regulatory compliances such as HIPAA (Health Insurance Portability and Accountability Act), HITRUST and GxP.

Efforts for revenue growth:

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 shifted its focus more towards Managed Services and Support and Platform Services which is of recurring nature when compared to Software Services segment which is of non-recurring nature. The R&D the company has incurred over the past two years is also towards improving its platform services which would also provide recurring revenue for the company with low additional costs. The improvement in revenue and margins as a result of these efforts is expected over the next 2-3 years.

Liquidity: Poor

The liquidity of the company remained stretched with high working capital utilisation at about 90% for the twelve months ended November 2022. At consolidated level, the company's cash accruals remain negative due to the R&D expenses, however these are funded out of IPO and equity infusion at the step-down subsidiary level. The company had free cash and bank balance of ₹ 36.97 crore as on September 30, 2022 on a consolidated level. At a standalone level, the company has started making positive GCA with ₹ 1.7 crore in H1FY23. The company's long term debt obligation as on March 31, 2022 stood at ₹ 49.86 crore out of which ₹ 41.29 crore is unsecured loan from its erstwhile promoter, Mr. R S Ramani and has been reduced to ₹ 31.37 crore as on

September 30, 2022. This was paid out of the proceeds of share warrants of Mr. Suresh Venkatachari converted of about ₹ 9.18 crore in FY23. The company had reported delays in monthly interest payment 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

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, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	350.55	380.21	231.88
PBILDT	36.12	-81.46	-28.55
PAT	1.18	-97.92	-43.21
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	2.21	NM	NM

A: Audited; Prov.: Provisional; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of the 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		-	-	Mar 2027	3.78	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ST-Bank Overdraft	LT/ST*	-	-	-	-	1)Withdrawn (28-Dec-20)	1)CARE C / CARE A4; ISSUER NOT COOPERATING* (11-Mar-20)
2	Fund-based - LT-Cash Credit	LT**	15.00	CARE C; Stable	-	1)CARE C; Stable (15-Dec-21)	1)CARE C; Stable (28-Dec-20)	1)CARE C; ISSUER NOT COOPERATING* (11-Mar-20)
3	Fund-based - LT-Term Loan	LT**	3.78	CARE C; Stable	-	1)CARE C; Stable (15-Dec-21)	1)CARE C; Stable (28-Dec-20)	-

*Long term/Short term; **Long-term

Annexure-3: Detailed explanation of the 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.

Contact us**Media contact**

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in**Analyst contact**

Name: Swathi Subramanian

Phone: +91-94442 34834

E-mail: swathi.subramanian@careedge.in**Relationship contact**

Name: Saikat Roy

Phone: +91-22-67543404

E-mail: saikat.roy@careedge.in**About us:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**