# 8K Miles Software Services Limited

**February 13, 2018**

**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)** | **Reaffirmed** |
| **Total Facilities** | **10 (Rupees Ten crore only)** | | |
| Proposed Non-Convertible Debentures | 50 (Rupees Fifty crore only) | **CARE A-; Stable (Single A Minus; Outlook: Stable)** | **Reaffirmed** |

**Rating Rationale**

*The reaffirmation of ratings to the bank facilities and Instrument of 8K Miles Software Services Limited (8K Miles) considers the experience of the promoters in cloud computing vertical. The ratings 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 robust revenue growth coupled with growing scale of operations with healthy profitability and low gearing levels.*

*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.*

**Credit Risk Assessment**

**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

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

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 H1FY18, the company continued to witness robust increase in its operating revenue on YoY basis to Rs.406 crore from Rs. 226 crore in H1FY17.

***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

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

**About CARE Ratings:**

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**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-; Stable / CARE A2+ |
| Debentures-Non Convertible Debentures (Proposed) | - | - | - | 50.00 | CARE A-; Stable |

**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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Debentures-Non Convertible Debentures (Proposed) | LT | 50.00 | CARE A-; Stable | - | 1)CARE A-; Stable (29-Nov-16) | - | - |
| 2. | Fund-based - LT/ ST-Bank Overdraft | LT/ST | 10.00 | CARE A-; Stable / CARE A2+ | - | 1)CARE A-; Stable / CARE A2+ (29-Nov-16) | - | - |

# 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

**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

**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

**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

**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

**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

**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

**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

**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

**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

CIN - L67190MH1993PLC071691