8K Miles Software Services Limited

September 28 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term/Short-term Bank Facilities- Over Draft	10.00	**CARE BB+/ CARE A4; Negative (Double B Plus/ A Four; Outlook: Negative)**	**Removed from Credit Watch; Revised from CARE A-/ CARE A2+ (Single A Minus/A Two Plus)**
Long Term Bank Facilities- Term Loan	25.00	**CARE BB+; Negative (Double B Plus; Outlook: Negative)**	**Removed from Credit Watch; Revised from CARE A- (Single A Minus)**
Long term Bank Facility- CC facility	15.00	**CARE BB+; Negative (Double B Plus; Outlook: Negative)**	**Removed from Credit Watch; Revised from CARE A- (Single A Minus)**
Total Facilities	**50.00 (Rupees Fifty crore only)**		
Proposed Non-Convertible Debentures	50 (Rupees Fifty crore only)	**CARE BB+; Negative (Double B Plus; Outlook: Negative)**	**Removed from Credit Watch; Revised from CARE A- (Single A Minus)**

Rating Rationale

The revision in ratings assigned to the bank facilities and instrument of 8K Miles Software Services Limited (8K Miles) takes cognizance of resignation of statutory auditors of "8K Miles Media Private Limited" which is a related party to 8K miles having two common promoter directors. The previous auditor "M/s. GHG Associates" have accused the management of 8K Miles Media Private Limited of misusing the firm's letter head, seal and the signature of the firm's partner in 9 outward direct investment (ODI) certificates submitted by the company to the bank to transfer the funds equivalent to Rs.46.12 crore overseas to M/s 8K miles Media Holdings Inc. on various dates during the period June 21 2017 to March 28 2018. Further, there is a sharp decline in the share price of 8K Miles during the period June 2018-September 26 2018.

Other rating challenges includes 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 ratings considers the experience of the promoters in cloud computing vertical and domain expertise added through various acquisitions over the years.

Any unanticipated debt-funded acquisition by the company which may impact the liquidity and weigh negatively on the credit profile of the company is the key rating sensitivity.

Outlook: Negative

The negative outlook reflects the likelihood of material misstatement in the consolidated financials of 8K miles as highlighted by the statutory auditors of the company in FY18 Annual report. The auditors has expressed qualified opinion in terms of material weakness identified in the company's internal financial controls over financial reporting as at March 31 2018 with regard to adequacy and operating effectiveness of the management's oversight and review of financial information and book closing procedures at the subsidiaries.

Detailed description of the key rating drivers

<u>Key Rating Weakness</u>

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 2018 was from North America. Furthermore, around 54% of consolidated revenue for 8K Miles was from clients in highly regulated Life Sciences, Pharmaceuticals and Healthcare sectors followed by manufacturing industry with share of 22% respectively. The client portfolio for the company is spread across different domains leading to lower client

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

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 in absence of 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.

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.

Incremental domain expertise through various acquisitions

From the year 2013, 8K Miles has also been acquiring companies in the USA in order to diversify 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.

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)	FY17 (A)	FY18 (A)
Total operating income	528.34	856.94
PBILDT	186.80	301.07
PAT	129.19	205.41
Overall gearing (times)	0.16	0.30
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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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 BB+; Negative / CARE A4
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BB+; Negative
Fund-based - LT-Term Loan	-	-	Feb 2020	25.00	CARE BB+; Negative
Proposed Non - Convertible Debentures	-	-	--	50.00	CARE BB+; Negative

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.	Proposed-Non Convertible Debentures	LT	50.00	CARE BB+; Negative	1)CARE A- (Under Credit watch with Developing Implications) (13-Jul-18)	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 BB+; Negative / CARE A4	1)CARE A- / CARE A2+ (Under Credit watch with Developing Implications) (13-Jul-18)	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 BB+; Negative	1)CARE A- (Under Credit watch with Developing Implications) (13-Jul-18)	1)CARE A-; Stable (22-Mar-18)	-	-
4.	Fund-based - LT-Term Loan	LT	25.00	CARE BB+; Negative	1)CARE A- (Under Credit watch with Developing Implications) (13-Jul-18)	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

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

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