

8K Miles Software Services Limited

December 28, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	5.73	CARE C; Stable (Single C; Outlook: Stable)	Assigned
Long-term Bank Facilities	15.00 (Enhanced from 10.00)	CARE C; Stable (Single C; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed; Stable outlook assigned
Long-term / Short-term Bank Facilities [^]	-	-	Withdrawn
Total Bank Facilities	20.73 (Rs. Twenty crore and seventy three lakh only)		

Details of instruments/facilities in Annexure-1

[^]CARE has withdrawn the long-term/ short-term ratings assigned to the overdraft facilities as they cease to exist as per the latest available sanction letter.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of 8K Miles Software Services Limited (8K Miles) are constrained by sharp decline in revenues, losses incurred, negative net-worth, and geographical and client concentration risk. The liquidity position is stretched with delays in payment of interest on unsecured loan, not rated by CARE, from one of its promoters and almost 100% utilization of working capital facilities. The ratings also factor in the competitive nature of the industry and foreign exchange fluctuation risk. The ratings derive strength from the domain and industry expertise of the company and tie-ups with public cloud enterprises.

Rating Sensitivities

Positive Factors:

- Improvement in profitability with PBILDT margins above 15%
- Reduction in client and geographical concentration risk
- Improvement in liquidity position

Negative Factors:

- Any further tightening of liquidity position leading to delay in debt servicing

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial profile marked by sharp decline in income, losses and net-worth erosion:

During FY20 (refers to the period April 1 to March 31), the company saw a sharp decline of 54.51% in its TOI to Rs.385.09 crore from Rs.846.50 crore in FY19. This is reportedly on account of the change in strategy of the business wherein the company has started consciously disengaging with the intermediaries which gave high-volume, low-margin projects previously. The sharp decline in revenue resulted in non-absorption of fixed cost mainly consisting of salaries and consultant charges and the company reported operating loss for FY20. Furthermore, the company had written off Rs.624.95 crore of exceptional item in its Profit and Loss statement resulting in loss for the year of Rs.674.51 crore. The major portion of the write-off was Rs.520.65 crore of internally generated software which was earlier being capitalized. The write-off also includes an amount of Rs.59.23 crore of accounts receivables from few clients that were deemed unrecoverable and Rs.45.06 crore of advance made in FY18 towards a target acquisition that is no longer plausible. The losses incurred in FY20 has also resulted in the erosion of net-worth of the company which was negative at Rs.-142.04 crore as on March 30, 2020.

In Q1FY21, 8K Miles recorded a net loss of Rs.6.36 crore against a revenue of Rs.88.07 crore, while the profitability improved in Q2FY21 with the company recording a PAT of Rs.3.90 crore as against a revenue of Rs.89.04 crore. The company also saw impact of COVID-19 in its chief market – US - in the form of delays in getting new projects and its major clients, hospitals, not choosing to spend on IT as their focus was mainly on COVID treatments.

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

Liquidity – Poor:

The company has negative cash accruals for the period ended March 31, 2020. The company had low free cash and bank balance of Rs.6.72 crore at consolidated level as on September 30, 2020. Of the total cash and bank balances, only Rs.0.1 crore is in the standalone books of 8K miles. The collection period increased from 105 days in FY19 to 135 days in FY20. The working capital utilization is almost 100% for the past 12 months ended November 30, 2020 with few instances of overdrawals upto a maximum of 23 days in the month of May 2020.

8K Miles also has unsecured loan of Rs.62.69 crore as at March 31, 2020, out of which Rs.52.59 crore is from Mr R S Ramani and Rs.10.10 crore is from Mr Suresh Venkatachari, the promoters of the company. The company has reported delays in servicing of interest on the loans from one of its promoters since April 2020; however, servicing of term loans being rated by CARE have been on time.

The company has availed moratorium on its working capital facilities and the interest for the period has been converted to Funded Interest Term Loan (FITL). The company has also availed COVID loan of Rs.3.08 crore in June 2020 under the Guaranteed Emergency Credit Line Scheme (GECLS).

Geographical and client concentration risk:

The company caters to USA and Indian markets primarily, with substantial portion of the revenues generated in the US. In FY20, 95% of the consolidated revenue is from the USA as against 89% in FY19. While some of the projects get offshored to the Indian parent, some require the presence of employees on the site of the clients. Therefore, this high dependence on USA for revenue exposes the company to geographical concentration risk especially with the increase in rejection of work visas. The company is also exposed to high client concentration risk with top 10 clients contributing to 71% of the TOI in H1FY21 with a single client contributing to 42.63% of TOI.

Foreign exchange fluctuation risk:

The company's foreign currency risk arises from its foreign currency revenues and expenses (primarily in USD). A significant portion of the company's revenues is in USD, while a significant portion of its costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to this foreign currency, the company's revenues measured in Indian rupees may decrease and vice versa.

Presence in highly competitive industry:

The company is 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 the risks of regulatory framework and immigration policy changes in USA. All of the above would put pressure on the margins of the company.

Audit qualification in FY20:

The auditor of 8K Miles, K Gopal Rao & Co., qualified the accounts for FY20 with respect to an observation made in FY19 audit report on long outstanding receivables from overseas customers amounting to Rs.34.64 crore (March 31, 2019) and corresponding technical services payable to the overseas vendor of Rs.17.09 crore. The receivables amounting to Rs.17.09 crore has been assigned to the vendor based on the assignment agreement between the company and the vendor. The residual balance of Rs.17.55 crore has been written-off to the Profit & Loss account. The company has made an intimation to the AD banker as required by RBI master circular and is subject to the approval of the RBI. The profits for the year FY20 have been impacted to this extent due to the above.

Key Rating Strengths**Domain and industry expertise coupled with tie-ups with public cloud enterprises:**

Since its inception, the company has developed in-house patented software such as CloudEz platform which is used in highly regulated industries like life sciences, healthcare, Banking Financial Services and Insurance (BFSI) and manufacturing entities. The company's technology expertise in cloud Services coupled with the industry expertise enhances the business performance and efficiency. Being in a highly regulated vertical like healthcare, 8K Miles is also expert and certified in regulatory compliances such as HIPAA (Health Insurance Portability and Accountability Act) and GxP. During FY17, the company acquired "Cornerstone Advisors" which helps clients implement complex inpatient-outpatient, ambulatory clinical and financial systems. In order to provide enhanced focus to Healthcare, Pharma/Life Sciences customers, 8k Miles launched a fully-owned subsidiary Healthcare Triangle Inc. Furthermore, the company has also 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.

Analytical approach: Consolidated as 8k miles and its subsidiaries are under the common management and have same business operations. The list of subsidiaries is given below:

Subsidiaries	Ownership
8K Miles Software Services Inc. USA	64.42%
8K Miles Health cloud Inc., USA	100%
Mentor Minds Solutions & Services Inc., USA	100%
Healthcare Triangle Pvt Limited, India	100%
Step-down subsidiaries	
Nexage Technologies Inc, USA	100%
Cornerstone Advisors Group LLC, USA	100%
Healthcare Triangle Inc, USA	85%
Serj Solutions Inc, USA	100%

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Criteria: Short-term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Service Sector Companies](#)

[Rating Methodology: Consolidation](#)

[Liquidity Analysis: Non- financial sector](#)

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 the 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)	FY19 (A)	FY20 (A)
Total operating income	846.40	385.09
PBILDT	168.66	-23.98
PAT	79.83	-674.50
Overall gearing (times)	0.86	-ve
Interest coverage (times)	13.47	-ve

A: Audited;

Status of non-cooperation with previous CRA: N/A

Any other information: N/A

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 for this company: Annexure 4

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	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE C; Stable
Fund-based - LT-Term Loan	-	-	May 2024	5.73	CARE C; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (14-Mar-19) 2)CARE C; Stable (29-Oct-18) 3)CARE BB+; Negative (28-Sep-18) 4)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)
2.	Fund-based - LT/ ST-Bank Overdraft	LT/ST	-	-	-	1)CARE C / CARE A4; ISSUER NOT COOPERATING* (11-Mar-20)	1)CARE C; Stable / CARE A4 (14-Mar-19) 2)CARE C; Stable / CARE A4 (29-Oct-18) 3)CARE BB+; Negative / CARE A4 (28-Sep-18) 4)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)
3.	Fund-based - LT-Cash Credit	LT	15.00	CARE C; Stable	-	1)CARE C; ISSUER NOT COOPERATING* (11-Mar-20)	1)CARE C; Stable (14-Mar-19) 2)CARE C; Stable (29-Oct-18) 3)CARE BB+; Negative (28-Sep-18) 4)CARE A- (Under Credit watch with Developing Implications)	1)CARE A-; Stable (22-Mar-18)

							(13-Jul-18)	
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (14-Mar-19) 2)CARE D (29-Oct-18) 3)CARE BB+; Negative (28-Sep-18) 4)CARE A- (Under Credit watch with Developing Implications) (13-Jul-18)	1)CARE A- ; Stable (22-Mar-18)
5.	Fund-based - LT-Term Loan	LT	5.73	CARE C; Stable	-	-	-	-

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

Annexure 4: Complexity level of various instruments rated for this company

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

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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