

SecureKloud Technologies Limited
(Formerly known as 8k Miles Software Services Limited)

December 15, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	19.86 (Reduced from 20.73)	CARE C; Stable (Single C; Outlook: Stable)	Reaffirmed
Total Bank Facilities	19.86 (Rs. Nineteen Crore and Eighty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SecureKloud Technologies Limited (SecureKloud) take into account marginally improved financial risk profile with improvement in consolidated liquidity profile. However, ratings remain constrained by moderate scale of revenue, erosion of net-worth, and geographical and client concentration risk. The ratings also factor in the competitive nature of the industry. The ratings derive strength from the domain expertise and industry expertise of the company and tie-ups with public cloud enterprises. The rating also takes note of efforts in expanding the business through R&D.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

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

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Any further tightening of liquidity position.

Detailed description of the key rating drivers

Key Rating Weaknesses

Financial profile marked by moderate scale of revenue and net-worth erosion: During FY20, the company saw a sharp decline of 54.51% in its TOI, it has remained at similar level in FY21. The drop is on account of disengaging with the intermediaries which gave high-volume, low-margin projects previously, which has further resulted in loss in FY20. Further, with the write off of Rs. 624.95 crore of exceptional item in its Profit and Loss statement resulting in loss for the year of Rs. 674.51 crore, there was an erosion in net-worth. The major portion of the write-off was Rs. 520.65 crore of internally developed software which was earlier being capitalized. However, in FY21, the company recorded a PAT of Rs. 1.18 crore. The tangible net-worth* as on March 31, 2021 stood at Rs.-116.24 crore which further declined to Rs.-127.53 crore as on September 30, 2021 with losses incurred. However, it is to be noted that in October 2021, the company has completed IPO of its step-down subsidiary in US (Healthcare Triangle Inc; HCTI) with equity infusion of Rs. 137 crore and has partially converted share warrants worth Rs. 11.68 crore held by Mr. Suresh Venkatachari with an inflow of Rs. 8.76 crore which has improved net-worth in FY22. The net-worth (including intangible assets and goodwill) has improved from Rs. 27.29 crore as on September 30, 2021 to Rs. 164.41 crore as on October 31, 2021

Geographical and client concentration risk: The company caters to USA market primarily. In FY21, 94% 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 the increase in rejection of work visas. Immigration issue has directly impacted the company in executing several projects, loss of opportunities, increase in staff expenses due to hiring of more contractors for specific projects and more local employees thereby contributing to lesser revenue and margins in FY20 and FY21. The company is also exposed to high client concentration risk with top 10 clients contributing to 68% of the TOI in FY21 with a single client contributing to 40% of TOI. However, it is to be noted that in H1FY22, the company has started growing revenue outside the top 10 clients also, with share coming down to 57%.

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.

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

Key Rating Strengths

Domain and Industry expertise coupled with tie-ups with public cloud enterprises: SecureKloud 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. The company also 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 certified in regulatory compliances such as HIPAA (Health Insurance Portability and Accountability Act), HITRUST and GxP.

Efforts in long-term revenue growth and improvement of margins: Starting FY20, the company has slowly started disengaging from intermediaries which gave high-volume and low-margin projects. The revenue drop in FY20 and FY21 is due to this strategy, however, the margins have improved in FY21 due to this move. 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. This also helps the company in retaining existing customers by leveraging our Managed Services and Support and Platform Services as a growth agent.

Liquidity - Adequate

The company had free cash and bank balance of Rs. 69 crore as on October 31, 2021. The collection period has reduced to 54 days. The working capital utilisation was 88% for the past 12 months ended October 2021. The company had also issued convertible warrants to its promoter – Mr. Suresh Venkatachari in March 2021 for an upfront payment of Rs. 11.25 crore. During October 2021, the Company has allotted of 11,68,000 equity shares to Mr Suresh Venkatachari worth Rs. 11.68 crore, as part of partial conversion of warrants for which Rs. 8.76 crores was received. The company's long term debt obligation as on March 31, 2021 stands at Rs. 55.66 crore out of which Rs. 52.38 crore is unsecured loan from its promoter, Mr. R S Ramani and has been reduced to Rs. 46.50 crore as on October 31, 2021. The company had reported delays in monthly interest payment with regards to the loan from Mr. R S Ramani from April 2020, however the same has been paid in October 2021 and there is no overdue of interest as of October 31, 2021 as mentioned in the Q2FY22 results published in the stock exchange.

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

Subsidiaries	Ownership as on March 31, 2021
SecureKloud Technologies Inc., USA	65.07%
Blockedge Technologies Inc., USA	100%
Mentor Minds Solutions & Services Inc., USA	100%
Healthcare Triangle Pvt Limited, India	100%
Step-down subsidiaries	
SecureKloud Technologies Inc., Canada	100%
Nexage Technologies Inc, USA	100%
Healthcare Triangle Inc, USA*	85%

*Post the IPO in October 2021, the shareholding has changed to 73.15%

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 with a view to provide cloud computing and related services to companies in the United States of America (USA). 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). Over the years SecureKloud 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)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	385.09	350.58	177.40
PBILDT	-23.98	36.15	-23.82
PAT	-674.50	1.18	-27.26
Overall gearing (times)	-ve	-ve	-ve
Interest coverage (times)	-ve	2.21	-ve

A: Audited; Prov.: Provisional

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	15.00	CARE C; Stable
Fund-based - LT-Term Loan		-	-	May 2024	4.86	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
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- (CWD) (13-Jul-18)
2	Fund-based - LT/ ST-Bank Overdraft	LT/ST *	-	-	-	1)Withdrawn (28-Dec-20)	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+ (CWD) (13-Jul-18)
3	Fund-based - LT-Cash Credit	LT	15.00	CARE C; Stable	-	1) CARE C; Stable (28-Dec-20)	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- (CWD) (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- (CWD) (13-Jul-18)
5	Fund-based - LT-Term Loan	LT	4.86	CARE C; Stable	-	1) CARE C; Stable (28-Dec-20)	-	-

* Long Term / Short Term; Long-Term

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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

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@careedge.in for any clarifications.

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