

November 05, 2021

## IBM India Private Limited: Long-term rating downgraded to [ICRA]AA+ (Stable); short-term rating reaffirmed at [ICRA]A1+

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term - Non-Fund based	170.00	170.00	[ICRA]A1+; reaffirmed
Long-term (Interchangeable)	(21.00)	(21.00)	[ICRA]AA+ (Stable); downgraded from [ICRA]AAA (Stable)
<b>Total</b>	<b>170.00</b>	<b>170.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the long-term rating factors in the relative weakening in the credit profile of IBM India Private Limited's (IBM India) ultimate holding company, International Business Machines Corporation, USA (IBM Corporation/the parent; holds 100% stake in IBM India). While the overall credit profile of the parent continues to remain robust, its debt metrics are likely to be weighed down over the medium term by the allocation of a significant portion of free cash flows towards investments for future growth<sup>1</sup>. IBM India derived over 70% of its FY2021 revenues from services to the parent and fellow subsidiaries. While the company's share in the overall revenues of IBM Corporation is relatively less at around 5%, India remains a key global delivery centre for the parent and IBM India contributes to one-third of its global workforce. Accordingly, the company's rating factors in implicit support from IBM Corporation given the strong linkages between the parent and subsidiary and the long-term rating of the company has been revised in line with the weakening in the credit profile of the parent. ICRA notes that the proposed spin-off of the managed infrastructure services unit of IBM Corporation into a separate company (both at a global level and IBM India level) shall result in contraction of revenues for IBM India by nearly one-fourth from FY2022. Nevertheless, the scale of operations is likely to remain healthy even post spin-off and the spin-off is not expected to negatively impact its credit profile. ICRA will continue to monitor for any further developments in this regard.

The ratings continue to reflect IBM India's established position in the domestic IT industry and access to IBM Corporation's technical expertise and capabilities. Further, the ratings favourably factor in IBM India's strong financial profile characterised by its healthy and stable earnings/cash flows, net debt-free status and strong liquidity profile. In FY2021, while the revenues declined by 5.3% on a YoY basis owing to the delayed offtake of new projects and pricing pressure due to the pandemic, the scale of operations continues to be healthy and the company's operating margins remained comfortable at 17.5% (PY: 18.7%).

### Key rating drivers and their description

#### Credit strengths

**Strong parentage; experienced management team** – IBM India is a step-down subsidiary of IBM Corporation, the global leader in providing IT-related services and products. The company generates a significant proportion (over 70% in FY2021) of its revenues from technology services, global business services and cloud services to the parent and its fellow subsidiaries. IBM India executes the orders on a cost-plus basis, and the pricing on such orders is determined through advance pricing agreement (APA) with the Central Board of Direct Taxes (CBDT). With a large share of revenues derived from IBM Corporation, the

<sup>1</sup> Moody's Corporation revised the ratings of IBM Corporation to A3/Stable/P2 from A2/Stable/P1 via PR dated October 14, 2021

company's performance benefits from the global end-user business segment and the company comprises around one-third of the global workforce of IBM Corporation. ICRA expects that IBM India would continue to remain a key delivery centre for the parent and benefit from access to IBM Corporation's technical expertise and capabilities. Further, IBM India's operations are guided by a strong management team with extensive experience in the IT industry, which has facilitated relationships with large clients in the domestic market.

**Healthy operational profile** – The company has a strong operational profile with established position in the domestic IT industry. It also caters to leading clients across the globe, including its parent entity and fellow subsidiaries. The company's clientele spans across various sectors such as banking, financial services and insurance (BFSI), telecom, healthcare, automotive, education, consumer durables, etc., and across service lines such as infrastructure services, consulting, application management services, and global process services. Within infrastructure services, it delivers a portfolio of cloud, project-based, outsourcing and other managed services focused on clients' enterprise IT infrastructure environment.

**Robust financial profile** – IBM's financial profile is characterised by its healthy scale of operations, stable earnings and cash flows, sizeable net worth, conservative debt protection metrics and strong liquidity profile. In FY2021, while the revenue declined by 5.3% on a YoY basis to Rs. 25,070.3 crore owing to the delayed offtake of new projects and pricing pressure due to the pandemic, the scale of operations continued to be healthy and the company's operating margins remained comfortable at 17.5% (PY 18.7%). With total debt of Rs. 1295.6 crore (including lease liabilities of Rs. 1,292.5 crore) as against sizeable net worth of Rs. 10,081.0 crore as on March 31, 2021, the company's gearing was comfortable at 0.1 times. Moreover, the total outside liabilities/tangible net worth was healthy at 0.8 times as on March 31, 2021 and the company remains supported by the sizeable cash and bank balances of Rs. 2,203.6 crore as on March 31, 2021.

## Credit challenges

**Margins susceptible to unfavourable forex movements** – IBM India derives a sizeable part of its revenues from exports. While the forex exposure is hedged at the ultimate holding company (IBM Corporation) level, IBM India's earnings remain exposed to risks arising from unfavourable forex fluctuations. Nevertheless, import of part of the raw materials, provides a natural hedge to an extent.

**History of large cash flows towards tax-related disputes and dividend pay-out** – The company has paid out a large sum towards dividend and income tax matters under dispute in the past, arising from transfer pricing adjustments determined by the Income Tax authorities. The company has paid Rs. 13,707.0 crore towards dividend in April 2020 and Rs. 3,698.8 crore of income tax under protest as on March 31, 2020. ICRA would continue to monitor for any significant dividend/tax-related pay-outs that may have a material impact on the company's cash flows going forward.

**Reduction in revenues going forward with spin-off of managed infrastructure services unit** – IBM Corporation has proposed the spin-off of its managed infrastructure services unit both at the global level and IBM India level into a separate public company by the end of 2021, subject to regulatory approvals. While the spin-off is expected to sharpen its focus on high-margin open hybrid cloud platform and artificial intelligence (AI) capabilities, the same is likely to result in a decline in revenues by nearly 25% from FY2022. Nevertheless, ICRA does not expect the transaction to impact the company's credit profile and its scale of operations is likely to remain healthy even post the spin off.

## Liquidity position: Strong

The company's liquidity position is **strong** with fund flow from operations of over Rs. 3,100.0 crore in FY2021. It had cash and liquid investments of Rs. 2,203.6 crore as on March 31, 2021 and undrawn non-fund based working capital lines of Rs. 542.4 crore as on September 30, 2021. Given its net debt-free status and the absence of incremental debt, ICRA expects IBM India's liquidity profile to remain strong going forward as well. Further, ICRA draws comfort from IBM India's strong financial flexibility and its lender/investor comfort. ICRA would continue to monitor for any significant dividend/tax-related pay-outs that may have a material impact on the company's liquidity position, going forward.

## Rating sensitivities

**Positive factors** – Improvement in the credit profile of IBM Corporation (parent) would be a positive rating trigger for IBM India, while the latter maintains its liquidity position and debt protection metrics.

**Negative factors** – Pressure on the company’s ratings could arise in case of a further deterioration in the credit profile IBM Corporation (parent), and/or weakening of the linkages between the two entities. Sustained deterioration in the earnings profile, cash flows and debt protection metrics of IBM India will also be a negative rating trigger.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a> <a href="#">Rating methodology for entities in Information Technology industry</a> <a href="#">Rating methodology for entities in Information Technology-Hardware Related Services industry</a>
Parent/Group Support	Parent: International Business Machines Corporation, USA (IBM Corporation) Implicit support from the ultimate holding company, IBM Corporation
Consolidation/Standalone	Consolidation

## About the company

IBM India is a wholly-owned subsidiary of IBM World Trade Corporation, USA (IBM WTC), with IBM Corporation as the ultimate holding company. IBM WTC was incorporated to administer IBM Corporation’s operations outside the US. IBM India is primarily involved in domestic and export business of selling computer systems, software, consulting and information technology services including maintenance services and carrying out lease and financing activities in connection with sale of products. The company is the Indian arm of IBM Corporation and has facilities in Bangalore, Ahmedabad, Delhi, Kolkata, Mumbai, Chennai, Pune, Gurgaon, Noida, Vishakhapatnam and Hyderabad.

## Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	26,485.4	25,070.3
PAT (Rs. crore)	2,629.9	2,024.1
OPBDIT/OI (%)	18.7%	17.5%
PAT/OI (%)	9.9%	8.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.8
Total Debt/OPBDIT (times)	0.4	0.3
Interest Coverage (times)	24.7	27.4

Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
				Nov 5, 2021	May 03, 2021	Oct 20, 2020	Sep 23, 2020			
1 Bank Guarantee	Short Term	170.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	
2 Cash Credit	Long Term	(21.00)	-	[ICRA]AA+ (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	
3 Unallocated	Long term / short term	-	-	-	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term - Non-Fund based	Simple
Long-term (Interchangeable)	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee	NA	0.20-0.25%	-	170.00	[ICRA]A1+
NA	Cash Credit	NA	-	-	(21.00)	[ICRA]AA+ (Stable)

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Sterling Commerce Solutions India Private Limited	99.99%	Full Consolidation
Sanovi Technologies Private Limited	100.00%	Full Consolidation
Sanovi Technologies DMCC	100.00%	Full Consolidation
Truven Health Analytics India Private Limited	99.99%	Full Consolidation

Source: Company

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545 300

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**K Srikumar**

+91 44 4596 4318

[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Vinutaa S**

+91 44 4596 4305

[Vinutaa.s@icraindia.com](mailto:Vinutaa.s@icraindia.com)

**Ishwarya Lakshmi**

+91 89 3919 4680

[Ishwarya.lakshmi@icraindia.com](mailto:Ishwarya.lakshmi@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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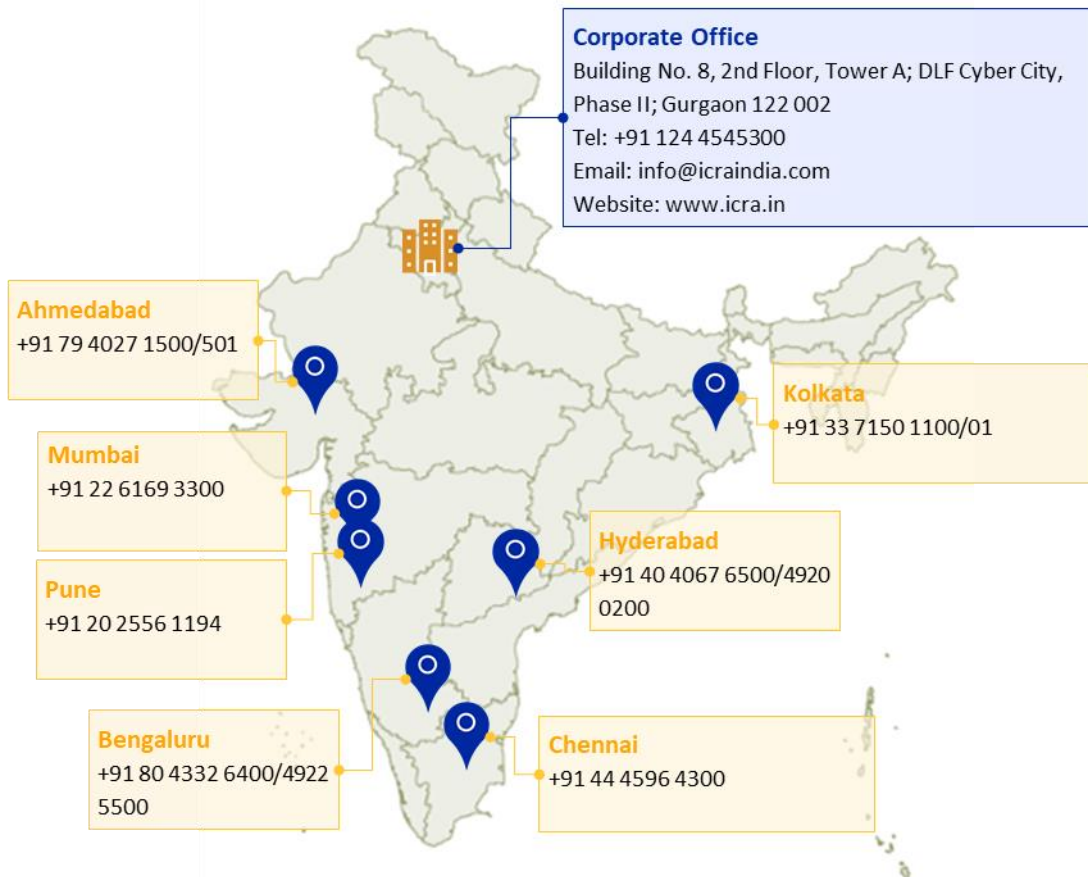
### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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