

May 08, 2024

IBM India Private Limited: Ratings reaffirmed; outlook on the long-term rating revised to 'Negative' from 'Stable'

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)	(6.00)	(6.00)	[ICRA]AA+ reaffirmed; outlook revised to 'Negative' from 'Stable'
Total	170.00	170.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook of long-term rating factors in the relative weakening of the credit profile of IBM India Private Limited's (IBM India/the company) ultimate holding company, International Business Machines Corporation, USA (IBM Corporation/ the parent). IBM Corporation's debt metrics are likely to be weighed down over the near term by the allocation of capital towards acquisitions beyond its free cash flow generation¹. IBM India derived 75% of its FY2023 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 6%, 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 outlook on the long-term rating of the company has been revised in line with the weakening in the credit profile of the parent.

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 and cash flows, net debt-free status and strong liquidity profile.

The company reported a consolidated operating income of Rs. 28,052.8 crore in FY2023, representing a YoY growth of 22.4%, aided by improvement in performance across segments, in both exports and domestic business, and growth in IBM's addressable market in India. The company's operating profit margins (OPM) remained healthy at 18.9% in FY2023 (FY2022: 19.2%). For 9M FY2024, the company witnessed a mid-single digit revenue growth on an annualised basis, while the OPM remained healthy. IBM India remained net debt negative, with free cash and bank balances of Rs. 3,421.0 crore and over Rs. 5,000.0 crore as of March 31, 2023 and December 31, 2023 respectively. ICRA expects the company's revenue growth and margins to remain healthy going forward as well, although the company remains exposed to challenges like forex fluctuations, employee attrition and policy changes in key operating markets, akin to other industry players. Further, ICRA expects IBM India to remain net debt negative over the medium term, despite any potential dividend payouts and payments in case of unfavourable outcome for tax-related disputes. The company is open to acquisitions in related verticals. The acquisitions, upon materialisation, would be evaluated on case-by-case basis.

¹ Moody's Investors Service has revised the ratings of IBM Corporation to A3/Negative/P2 from A3/Stable/P2 vide PR dated April 26, 2024

Key rating drivers and their description

Credit strengths

Strong parentage – IBM India is a step-down subsidiary of IBM Corporation, a global leader in providing IT-related services and products. The company generates a significant proportion (75% in FY2023) of its revenues from technology services, global business services and cloud services to the parent and its fellow subsidiaries and comprises around one-third of the global workforce of IBM Corporation. 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 company's performance benefits from the global end-user business segments. ICRA expects that IBM India would continue to be a key delivery centre for the parent and benefit from access to IBM Corporation's technical expertise and capabilities. Further, IBM India has 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 consulting, application management services, and global process services.

Robust financial profile – IBM India has healthy scale of operations and earnings, sizeable net worth, conservative debt protection metrics and strong liquidity profile. The company reported a consolidated operating income of Rs. 28,052.8 crore in FY2023, representing a YoY growth of 22.4%, aided by improvement in performance across segments, in both exports and domestic business, and growth in IBM's addressable market in India. The company's operating profit margins (OPM) remained healthy at 18.9% in FY2023 (FY2022: 19.2%). For 9M FY2024, the company witnessed a mid-single digit revenue growth on an annualised basis, while the OPM remained healthy. Further, its healthy accruals over the last several years have resulted in sizeable net worth of Rs. 13,283.9 crore as on March 31, 2023. The company has remained net debt negative in the last several years, with debt comprising only lease liabilities to the tune of Rs. 1,986.7 crore as on March 31, 2023, and had free cash and bank balances of Rs. 3,421.0 crore and over Rs. 5,000.0 crore as of March 31, 2023 and December 31, 2023 respectively. ICRA expects the company's revenue growth and margins to remain healthy going forward as well.

Credit challenges

Company exposed to industry specific challenges like forex fluctuations, high employee attrition and exposure to policies in key operating markets – IBM India derives a sizeable part of its revenues from exports and is thus exposed to volatility in forex fluctuations. Nevertheless, the risk is mitigated to an extent by natural hedge from imports and hedging policies adopted at the Group level. Akin to other industry players, the company also witnesses challenges pertaining to wage inflation and retention and reskilling of its talent pool. The company's performance is also exposed to macro-economic uncertainties and adverse regulatory/ legislative changes in its key operating markets, if any.

History of large cash flows towards tax-related disputes and dividend pay-outs – 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 dividends of Rs. 13,707.0 crore in FY2021 and Rs. 898.4 crore in FY2023. The dividend payout remained moderate as a proportion of accruals in 9M FY2024. Further, it has paid Rs. 1,478.7 crore of income tax under protest as of March 31, 2023. ICRA would continue to monitor for any significant dividend/tax-related payments that may have a material impact on the company's cash flows, going forward.

Exposure to competition in the global IT industry – The global IT services industry is dominated by several large players, leading to competition and pressure on margins. While IBM is one of the larger companies in the global IT services industry, it faces competition from domestic players such as Tata Consultancy Services, Infosys Limited and Wipro Limited, as well as from

international players like Accenture Plc, Oracle Corporation and Hewlett Packard Enterprise, among others. This apart, there are various smaller, niche technology players, which leads to competition while bidding for new contracts.

Liquidity position: Strong

The company's liquidity position is strong with healthy anticipated accruals and cash flow generation over the medium term. It had cash and liquid investments of Rs. 3,421.0 crore as on March 31, 2023 and over Rs. 5,000.0 crore as on December 31, 2023, apart from undrawn working capital lines of over Rs. 150 crore as on December 31, 2023. As against these sources of cash, the company is expected to incur annual capex of ~Rs. 700-1,000 crore over the medium term, to be funded by internal accruals. Given its net debt-free status and the absence of incremental debt going forward, ICRA expects IBM India's liquidity profile to remain strong over the medium term. ICRA would continue to monitor for any significant dividend/tax-related payouts/acquisitions that may have a material impact on the company's liquidity position.

Rating sensitivities

Positive factors – Improvement in the credit profile of IBM Corporation (parent) along with strong liquidity position and debt protection metrics in IBM India would be a trigger for revision in outlook on the long-term rating for the company.

Negative factors – Pressure on the company's ratings could arise in case of a deterioration in the credit profile IBM Corporation (parent) 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	Corporate Credit Rating Methodology IT - Software & Services
Parent/Group support	International Business Machines Corporation, USA (IBM Corporation) IBM India enjoys implicit financial and operational support by virtue of its parentage.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IBM India.

About the company

IBM India Private Limited is primarily involved in domestic and export business of selling computer systems, software, consulting and IT 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, Visakhapatnam and Hyderabad.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	22,917.3	28,052.8
PAT	2,480.5	2,964.3
OPBDIT/OI	19.2%	18.2%
PAT/OI	10.8%	10.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	0.3	0.4
Interest coverage (times)	24.2	25.2

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				May 08, 2024	-	Feb 23, 2023	Nov 05, 2021	May 03, 2021
1 Non-fund based	Short term	170.00	--	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2 Interchangeable	Long term	(6.00)	--	[ICRA]AA+ (Negative)	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AAA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short term – Non-fund based	Very 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short term – Non-fund based	NA	NA	NA	170.00	[ICRA]A1+
NA	Long-term (Interchangeable)	NA	NA	NA	(6.00)	[ICRA]AA+ (Negative)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	IBM India Ownership	Consolidation Approach
Sterling Commerce Solutions India Private Limited	100.00%	Full Consolidation
Sanovi Technologies Private Limited	100.00%	Full Consolidation
Sanovi Technologies DMCC	100.00%	Full Consolidation
Truven Health Analytics India Private Limited	100.00%	Full Consolidation
Spartan Technology Services and Solutions Private Limited	100.00%	Full Consolidation
Neudesic Technologies Private Limited	100.00%	Full Consolidation

Source: IBM India Annual Report for FY2023

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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