

February 23, 2023 ^(Revised)

IBM India Private Limited: Ratings reaffirmed

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)	(6.00)	[ICRA]AA+ (Stable); reaffirmed
Total	170.00	170.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation favourably factors in the strong parentage of IBM India Private Limited (IBM India/ company), being a step-down subsidiary of International Business Machines Corporation, USA (IBM Corporation, parent) and its strong linkage with the parent. The ratings also continue to reflect IBM India's established position in the domestic IT industry, and its strong financial profile characterised by healthy earnings/cash flows, net debt-free status and strong liquidity profile.

IBM Corporation is a global leader in providing information technology (IT) related services and products and IBM India has access to the parent's technical expertise and capabilities. India is key global delivery centres at the Group level for IBM Corporation and contributes to one-third of its global workforce. Further, IBM India derived over 75% of its revenues in FY2022 from export of services to its parent and fellow subsidiaries, although its share in the overall revenues of the parent is less (<5%).

The company reported a consolidated operating income of Rs. 22,703.1 crore, representing a YoY decline of 9.4%. While the spin-off of the managed infrastructure services unit into a separate company resulted in decline in revenues for IBM India, the improvement in performance across segments, in both exports and domestic business and growth in IBM's addressable market in India capped the decline. The company's operating profit margins (OPM) remained healthy at 18.9% in FY2022 (PY: 17.5%). For H1 FY2023, the company reported a topline of Rs. 13,068.0 crore, reflecting a growth of 15.1% on an annualised basis, while the OPM were at 16.2%. IBM India remained net debt negative, with cash and bank balances of Rs. 1,637.8 crore as of September 30, 2022 and over Rs. 2,000 crore as on December 31, 2022. 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 exposure to policies 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 payouts in case of unfavourable outcome for tax-related disputes. The company is open to acquisitions¹ in related verticals. The acquisitions, upon materialisation, would be evaluated on case-by-case basis.

¹ The company had acquired 100% stake in Neudesic Technologies Private Limited, a leading cloud services consultancy specializing primarily in the Microsoft Azure platform, in FY2022 for a consideration of Rs. 1,438.8 crore. This acquisition has expanded IBM India's offerings in hybrid cloud and artificial intelligence.

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 (over 75% in FY2022) 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. 22,703.1 crore, representing a YoY decline of 9.4%. While the spin-off of the managed infrastructure services unit into a separate company resulted in decline in revenues for IBM India, the improvement in performance across segments, in both exports and domestic business and growth in IBM's addressable market in India capped the decline. The company's operating profit margins (OPM) remained healthy at 18.9% in FY2022 (PY: 17.5%). For H1 FY2023, the company reported a topline of Rs. 13,068.0 crore, reflecting a growth of 15.1% on an annualised basis, while the operating profit margins were at 16.2%. Further, its accruals have been in the range of over Rs. 3,000 crore in FY2022, resulting in sizeable net worth of Rs. 11,222.5 crore as on March 31, 2022 and Rs. 12,372.9 crore as on September 30, 2022. The company has remained net debt negative in the last several years, with debt comprising only lease liabilities to the tune of Rs. 1,281.1 crore as on March 31, 2022. The company had cash and bank balances of Rs. 1,637.8 crore as of September 30, 2022 and over Rs. 2,000 crore as on December 31, 2022. ICRA expects the company's revenue growth and margins to remain healthy going forward as well.

Credit challenges

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 had paid dividends of Rs. 3770.8 crore in FY2019, Rs. 13,707.0 crore in FY2021, and ~Rs. 900 crore in YTD FY2023 (in December 2022). Further, it has paid Rs. 2,572.6 crore of income tax under protest as of March 31, 2022. 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.

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 (TCS), Infosys Limited (Infosys) and Wipro Limited (Wipro), as well as from international players like Accenture, Oracle and Hewlett Packard, 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 fund flow from operations of over Rs. 3,100.0 crore in FY2022. It had cash and liquid investments of Rs. 2,433.5 crore as on March 31, 2022, Rs. 1637.8 crore as on September 30, 2022 and over Rs. 2000 crore as of December 31, 2022 and undrawn working capital lines of over Rs. 450.0 crore as on September 30, 2022. As against these sources of cash, the company has annual capex plans of ~Rs. 700 crore for FY2023-FY2025, to be funded by internal accruals. 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/acquisitions 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 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	Corporate Credit Rating Methodology Methodology on Information Technology Hardware-related Services Methodology on Information Technology (Services) Rating Approach - Impact Support from Parent or Group
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 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. 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.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	25,070.3	22,703.1
PAT	2,024.1	2,453.4
OPBDIT/OI	17.5%	18.9%
PAT/OI	8.1%	10.8%
Total outside liabilities/Tangible net worth (times)	0.8	0.6
Total debt/OPBDIT (times)	0.3	0.3
Interest coverage (times)	27.4	24.0

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 (FY2023)			Chronology of rating history for the past 3 years					Date & rating in FY2020
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021			
					Feb 23, 2023	Nov 05, 2021	May 03, 2021	Oct 20, 2020	Sep 23, 2020	
1	Non-fund based	Short term	170.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
2	Interchangeable	Long term	(6.00)	--	[ICRA]AA+ (Stable)	[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	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+ (Stable)

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
Neudesic Technologies Private Limited	100.00%	Full Consolidation

Source: IBM India Annual Report for FY2022

Corrigendum

Document dated February 23, 2023, has been corrected with revisions as detailed below:

The complexity indicator for short-term non-fund-based limits has been corrected to 'very simple' from 'simple'.

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