

May 03, 2021

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	20.00	170.00	[ICRA]A1+; reaffirmed
Long-term (Interchangeable)	(20.00)	(21.00)	[ICRA]AAA (Stable); reaffirmed
Long-term/Short-term – Proposed facilities	150.00	-	¹
Total	170.00	170.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation favourably factor in the strong parentage of IBM India Private Limited (IBM India), being a step-down subsidiary of International Business Machines Corporation, USA (IBM Corporation; rated A2/stable/P1 by Moody's), experienced management team, strong operational and strategic linkages with IBM Corporation, and its healthy financial and operational profile with presence across various end-user industries.

Being part of IBM Corporation, a global leader in providing information technology (IT)-related services and products, IBM India has access to the strong expertise and capabilities in the business of the latter. India is a key market for IBM Corporation, although its share in the overall revenues is less (<5%), because of the demographic advantage of availability of low-cost labour and large, skilled talent pool. The company is one of the key global delivery centres at the Group level and derived over 70% of its revenues in FY2020 from export of services to its parent and fellow subsidiaries on a cost-plus model. IBM India's credit profile is characterised by its large scale of operations, stable earnings and cashflows, net debt-free status and strong liquidity profile.

The Covid-19 pandemic has adversely impacted the Indian and global IT services industry, causing disruption to both supply (restriction of movement of employees) and demand (like delayed offtake of new projects, reduced discretionary spend and IT budget cuts). ICRA expects the company's revenues and margins to be moderately impacted in FY2021 although the effect of cost-saving initiatives undertaken remains to be seen. In 9M FY2021, the company had generated revenues of Rs. 18,646.6 crore and profit before taxes (PBT) of 11.8% (vis-à-vis 14.2% in FY2020). By virtue of being a net exporter and hedging being done at the holding company level, the company's margins are vulnerable to unfavourable forex movements.

ICRA notes that the proposed spin-off transaction of Managed Infrastructure Services unit of Global Technology Services (GTS) division into a separate public company (both at IBM Corporation and IBM India level) is aimed at enhancing focus on the margin-accretive open hybrid cloud and AI-linked businesses, and the managed infrastructure services will be operated through a new entity. While this will result in contraction of employees and revenues of IBM India by nearly one-fourth from FY2022/FY2023 onwards, however the same is unlikely to impact the credit profile or its linkages with parent company. ICRA will continue to monitor the developments in this regard to understand its impact on the business and financial profile of the company and will review the situation when more development emerges.

The Stable outlook on the long-term rating reflects ICRA's opinion that IBM India would continue to benefit from its strong linkages with the parent entity and its robust operational profile, having diversified service offerings with presence across various end-user industries.

¹ ICRA had ratings of [ICRA]AAA (Stable)/ [ICRA]A1+ on the Rs. 150.00 crore proposed facilities earlier. This has currently been revised to nil

Key rating drivers and their description

Credit strengths

Strong parentage and experienced management team: IBM India is a step-down subsidiary of IBM Corporation, global leader in providing IT-related services and products. IBM India's operations are guided by an experienced management team with extensive experience in the IT industry, which has ensured established relations with major clients in the domestic market.

Strong linkages with IBM Corporation: IBM India is one of the global delivery centres for IBM Corporation and generates a significant proportion (over 70%) of its revenues from the export of technology services, global business services and cloud services to IBM Corporation and its fellow subsidiaries. The company executes the orders on a cost-plus basis, and the pricing on such orders is determined through advance pricing agreement (APA) with Central Board of Direct Taxes (CBDT). With large share of revenues derived from IBM Corporation, the performance of IBM India is also dependent on the prospects of the global end-user business segment. Akin to IBM Corporation's revenue trend, IBM India's revenues remained largely flat in the past three years. ICRA expects that the Indian entity would remain a key outsourcing destination for IBM Corporation, owing to India's low-cost labour and large skilled talent pool.

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

Sound credit profile: IBM's financial profile is characterised by large scale of operations, stable earnings and cashflows, sizeable net worth, robust debt protection metrics and strong liquidity profile. While the company's revenues remained flat in the past three years (3-year CAGR of -0.9% ending FY2020), the earnings remained stable supported by healthy operating margins and negligible interest costs. IBM India's credit profile is supported by net debt-free status and total outside liabilities/tangible net worth was comfortable at 0.4 times as on March 31, 2020.

Credit challenge

Headwinds from impact of Covid-19 pandemic likely to affect revenues and margins in near term: The global spread of Covid-19 pandemic is resulting in simultaneous supply and demand shocks for the global and Indian IT services industry. These shocks are expected to materially slow down the economic activity across the globe, impacting the discretionary spend and consequently the company's revenues and earnings. Nevertheless, ICRA expects the company to manage headwinds, given its large scale of operations apart from its cost-saving initiatives, diversified presence across sectors, robust credit profile and healthy cash reserves.

Margins susceptible to unfavourable forex movements: IBM derives a sizeable part of its revenues from exports, and imports a part of its raw materials, providing a natural hedge to an extent. As the forex exposure is hedged at the ultimate holding company (IBM Corporation) level, it exposes the company's earnings to risks arising from unfavourable forex fluctuations.

History of large cashflows towards tax-related disputes and dividend payouts: 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. While the company has received favourable order for some of its cases, ICRA would continue to monitor of any additional tax-related payouts going forward and its impact on cashflows.

Liquidity position: Strong

The company's liquidity position is **strong** with positive free cash flow from operations in FY2020. It does not utilise of its working capital facilities and has undrawn lines of credit of Rs. 237.4 crore as on March 31, 2021. The company had cash and liquid investments of Rs. 2,031.6 crore as on December 31, 2020. ICRA expects the company's liquidity profile to remain strong going forward.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the company's ratings could arise in case of sharp deterioration in the credit profile IBM Corporation (parent), and/or weakening of the strategic linkages between the two entities. Sustained deterioration in earnings profile, cashflows 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 Impact of Parent or Group Support on an Issuer's Credit Rating Rating methodology for entities in Information Technology industry Rating methodology for entities in Information Technology-Hardware Related Services industry
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 the Group's operations outside the US. IBM India Private Limited (IBM India) is primarily engaged 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	FY2019	FY2020
Operating Income (Rs. crore)	26,736.4	26,485.4
PAT (Rs. crore)	2,440.3	2,629.9
OPBDIT/OI (%)	14.2%	18.7%^
PAT/OI (%)	9.1%	9.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	169.1	24.7

Source: Company, ICRA Research; Note: Amount in Rs. Crore

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

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
					May 03, 2021	Oct 20, 2020	Sep 23, 2020	-	-
1	Bank Guarantee	Short Term	170.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
2	Cash Credit	Long Term	(21.00)	-	[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 instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

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]AAA (Stable)

Source: IBM India Private Limited

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: IBM India Private Limited

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545 300

shamsherd@icraindia.com

Vinutaa S

+91 44 4596 4305

Vinutaa.s@icraindia.com

K Srikumar

+91 44 4596 4318

ksrikumar@icraindia.com

William Charles

+91 44 4297 4305

william.charles@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

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

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



Branches



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