

October 20, 2020

IBM India Private Limited: Update on Material Event

Summary of rating action

Instrument*	Rated Amount (Rs. crore)	Rating outstanding
Long-term/Short-term – Proposed facilities	150.00	[ICRA]AAA (Stable) / [ICRA]A1+; outstanding
Short-term - Non-fund Based	20.00	[ICRA]A1+; outstanding
Long-term (Interchangeable)	(20.00)	[ICRA]AAA (Stable); outstanding
Total	170.00	

Material Event

On October 8, 2020, International Business Machines Corporation, USA (IBM Corporation; rated A2/stable/P1 by Moody's) has announced its decision to spin off its managed infrastructure services unit of global technology services (GTS) division into a separate public company by the end of 2021, subject to regulatory approvals. The spin-off is to sharpen its focus on high-margin open hybrid cloud platform and artificial intelligence (AI) capabilities. Subsequently, on October 10, 2020, based on media articles, it is noted that the Indian operations, which are currently carried on under IBM India Private Limited (IBM India), would be restructured as well and around one-fourth of its employees will be part of the new entity catering to the needs of managed IT infrastructure services.

Impact of the Material Event

IBM India is one of the key global delivery centres for IBM Corporation with over 70% of its revenues being derived from export of services to the parent entity and its fellow subsidiaries, as part of the outsourcing business model. The company derives over 20% of its revenues from technology services, cloud platform and global business services division, wherein IBM India provides infrastructure services and technology support services to its clients.

The ratings of [ICRA]AAA (Stable)/[ICRA]A1+ outstanding, primarily factors in the strong parentage of IBM India, being a stepdown subsidiary of IBM Corporation, apart from the 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. IBM India had cash balances and liquid investments of Rs. 1,994.4 crore as on June 30, 2020 and negligible long-term debt.

ICRA notes that the proposed spin-off transaction (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, the same is unlikely to impact the credit profile or its linkages with the 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 upon more development.

The previous detailed rating rationale is available on the following link: [Click here](#)

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