

PRESS RELEASE  
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## Revenue growth of Indian IT services companies projected at 4-6% in FY2026: ICRA

ICRA projects its sample set<sup>1</sup> of Indian IT services companies (which account for ~60% of the industry in revenue terms) to witness a moderate 4-6% revenue expansion in USD terms in FY2026. Further, ICRA anticipates attrition levels to stabilise around the long-term average of 12-13% over the near term. Moreover, hiring is likely to remain low until the growth momentum picks up by the end of FY2026. The operating profit margins (OPM) for the sample set is expected to sustain at 22.5-23.0% over next three to four quarters.

Commenting on the near-term expectations on industry performance, **Deepak Jotwani, Vice President & Sector Head, ICRA**, said: *“The growth momentum for ICRA’s sample set of IT services companies is likely to remain muted over the near term, owing to the looming uncertainty related to imposition of the US trade tariffs and macroeconomic headwinds across the key markets of the US and Europe. ICRA projects a moderate 4-6% revenue expansion in USD terms in FY2026, following 4-5% increase estimated for FY2025. Policy changes by the US government for key sectors catered to by Indian IT services companies as well as future interest rate trajectory will remain the key monitorables.”*

The sample set recorded a YoY revenue growth of 3.6% in USD terms in 9M FY2025, witnessing gradual recovery over the past three quarters, supported by a relatively lower base of FY2024, slight uptick in discretionary spend by customers in the banking, financial services & insurance (BFSI) and retail sectors in some markets and investments in Generative AI (GenAI) initiatives translating into new order inflows.

ICRA highlighted that there has been some respite for industry players with easing of attrition rates and wage cost inflation, which had surfaced as areas of concern over FY2023 and H1 FY2024. The last 12 months’ (LTM) attrition for the sample set companies corrected sharply to 12.8% in Q3 FY2025 from 22.3% in Q3 FY2023 as the overall slowdown in growth momentum and strong hiring in the previous fiscal addressed the demand-supply mismatch witnessed earlier. ICRA expects attrition levels to stabilise at a long-term average of 12-13% over the near term. Moreover, employee cost as a percentage of operating income (OI) declined marginally to 56.2% in Q3 FY2025 from 57.0% in Q3 FY2024 owing to moderation in wage hikes in the current fiscal. This, coupled with increased employee utilisation and optimisation of cost structure supported the OPM for the sample set at 22.5-23.0% in recent quarters, which are expected to sustain over FY2026.

ICRA expects hiring to remain low in the near term until the growth momentum picks up by end of FY2026. Lower hiring activity can also be correlated with higher investments by the industry on GenAI and the expected benefits in terms of increased productivity and cost savings. Leading Indian IT services companies have trained a sizeable portion of their employee base in GenAI skills and have already started ramping up their capabilities and service offerings, to deliver GenAI-based solutions to their clients.

*“This has started to show results as the inflow of GenAI-related deals for major industry players have risen in recent quarters and is expected to pick up materially over the medium term, as overall technology adoption is more pervasive. The healthcare and BFSI sectors remain the early adopters of AI/GenAI capabilities and continue to invest in the same”* **Jotwani** added. While near-term revenue pressures exist and deal cycles have elongated further,

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<sup>1</sup> Leading 15 large and medium sized listed Indian IT services companies

overall deal wins for the industry in recent quarters have remained resilient. Industry participants continue to sit on healthy total contract value, which provides revenue visibility over the near to medium term.

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