

Press Release
January 14, 2021

India IT Services expected to post healthy growth in FY2022, sectors outlook stable: ICRA

- ***Growth in INR expected to be 7-9% while in US\$ terms it will be 5-8% growth for FY2022, demand for digital technologies and resumption of normal economic activity will drive growth***
- ***Overall, mild impact of Covid-19 pandemic seen, though the same varies across user industries***
- ***About 82% of ICRA's 52 entities rated under IT and BPO sector are in Investment grade category, indicating healthy cash flow generation led by higher margins and low working capital requirements***
- ***On the flip side, key risk remains in so far as increase in minimum wages, changes to eligible occupations, frequency and restrictions in issuance for H-1B visa remain***

The Indian IT services sector faced minimal disruptions due to the Covid-19 pandemic and the sector is expected to post a 7-9% growth in Rupee (INR) terms; and 5-8% growth in Dollar terms (US\$) for FY2022. As per ICRA Research, demand for digital technologies and resumption of normal economic activity will drive healthy growth. The industry's operating margins at 23% too are likely to remain robust and similar to pre-Covid levels. Other key financial parameters, RoCE (30-32%), Debt/EBDITA (0.19x) and interest cover (65.2x) too are expected to remain strong. Based on the strengths, the ratings agency has given a 'Stable' outlook for the sector.

Says, Mr. Gaurav Jain, ICRA, "Demand for IT services has been mildly impacted due to Covid-19 pandemic on all end-user industries though some sectors like travel/hospitality, retail, oil/gas has been impacted more severely. However, higher adoption of digital services has mitigated the impact to a large extent and 90-95% work from home (WFH) was achieved for majority of IT services players by April'20 through seamless integration for Application, IMS and Analytics. The BFSI vertical was initially impacted as modifications were required in confidentiality agreements with clients while the BPO vertical was impacted due to infrastructure constraints. The pace of conversion of earlier deal wins into revenues have picked up pace after some moderation during Q1 FY2021. The focus of new deals is now on cost take-outs, cloud transformation, virtualisation and digital customer experience, although this has increased conversion time due to Covid-19. The pricing pressure mostly seen in legacy work during contract renegotiations too has been compensated by new digital transformation deals."

On the outlook for FY2022, adds Mr. Gaurav Jain, "With 90-95% achievement of WFH and demand recovery led by acceleration in adoption of digital demand, the revenue growth for IT services in US\$ terms is expected to be flattish in FY2021 and US\$ 5%-8% in FY2022. Margins in FY2022 will remain in line with pre-Covid levels. IT services sector companies have largely remained in net cash position owing to healthy margins, moderate working capital and capex requirements. The trend is expected to continue in FY2022 with little impact of Covid-19 on growth and profitability. However, key risk remains in so far as increase in minimum wages, changes to eligible occupations, frequency and restrictions in issuance for H-1B visa remain."

About 82% of ICRA's 52 entities rated under IT and BPO sector are in Investment grade category, indicating healthy cash flow generation led by higher margins and low working capital requirements. Further with low capex requirements, entities in the sector have been generating free cash flows leading to net cash position and liquid investments. The downgrades have been primarily for entities which derive a large portion of their revenues from domestic segment with elongated payment cycles. During H1 FY2021, the ratings agency has downgraded only one entity which was already on Negative outlook prior to onset of Covid-19 pandemic. It has not downgraded or revised any rating outlook to Negative for IT Services sector owing to Covid-19 pandemic.

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