



INDIAN IT SERVICES INDUSTRY

**Intensifying macro-economic
headwinds in key markets to
moderate industry growth to mid-
single digits in FY2024**

MAY 2023



Highlights



Click to Provide Feedback

ICRA expects revenue growth for the Indian IT services industry to moderate to mid-single digits in USD terms in FY2024, owing to intensifying macroeconomic headwinds in key markets. However, ICRA maintains its Stable outlook for the industry, led by well established business position, healthy earnings profile and strong balance sheets of the industry players.



The Indian IT services industry witnessed a strong revenue growth during and post the pandemic (H2 FY2021 till H1 FY2023) owing to accelerated demand for cloud and digital services across the globe. However, the growth momentum witnessed a slowdown in the last two quarters due to macroeconomic headwinds in the US and Europe, which together account for 80-90% of the industry's revenues.



In terms of segment mix, growth from the BFSI segment (contributed ~29% to the revenues of ICRA's sample set* of top-5 IT services companies during FY2023) tapered more than in other segments because of the recent US banking crisis as well as softness in the mortgage market due to firming interest rates. In terms of geographic mix, revenue growth from the US witnessed a sharper moderation compared to Europe.



Despite a strong order book and deal pipelines of Indian IT services companies, ICRA expects the revenue growth to remain subdued in mid-single digits in USD terms in FY2024. This is owing to persistent uncertainty in these key markets, resulting in delays in decision-making by customers, as visible from the slowdown in the conversion of deals to revenues to some extent. However, evolving consumer demand dynamics and the pandemic made technology spend far more integral to overall capital allocation of corporates, which is likely to support industry growth over medium term.



The operating profit margin (OPM) of ICRA's sample set remained healthy at ~22.9% in FY2023, although lower by ~190 bps YoY due to wage cost inflation and normalisation of operational overheads. ICRA expects the OPM to remain steady, despite the slowdown in revenue growth, given the agility to work with multiple levers such as onshore-offshore mix, utilisation levels, employee pyramid optimisation etc. to manage costs efficiently.



There was significant reduction in hiring by IT services companies in FY2023, given the slowdown in the growth momentum coupled with utilisation of the considerably excess capacity added in FY2022. Moreover, with easing demand-supply mismatches, attrition levels saw considerable tapering in the last couple of quarters, in sync with ICRA's earlier expectations.

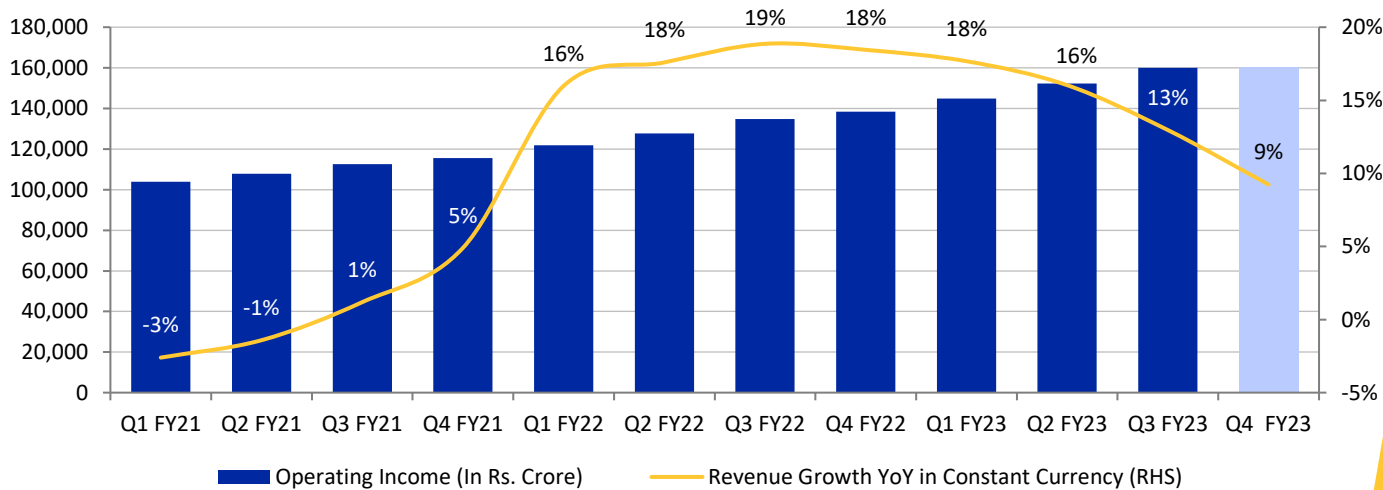


In line with the past, the sample set companies are expected to weather macroeconomic headwinds in key markets. While revenue growth is expected to slow down in the near term, their credit profiles are not expected to be impacted materially, given their strong business position and balance sheets.

Revenue growth to remain muted in mid-single digits in the near term



Exhibit: Quarterly Trend in Revenues and Year on Year Growth in Constant Currency Terms



▪ The revenue growth for ICRA’s sample of IT services companies moderated in the last two quarters, primarily due to lower discretionary technological spends and delay in decision-making from the customers in the key markets of the US and Europe, owing to the uncertain macroeconomic environment. The revenue growth is expected to remain subdued in mid-single digits over the next couple of quarters because of the persistent uncertainty in these markets.



Source: Company data, ICRA Research; ICRA sample set of five companies (HCL Technologies Ltd, Infosys Ltd, Tata Consultancy Services Ltd, Tech Mahindra Ltd and Wipro Ltd)

Moderation in USD-denominated revenue growth in FY2023



Exhibit: Trend in Revenue Growth in INR and USD Terms

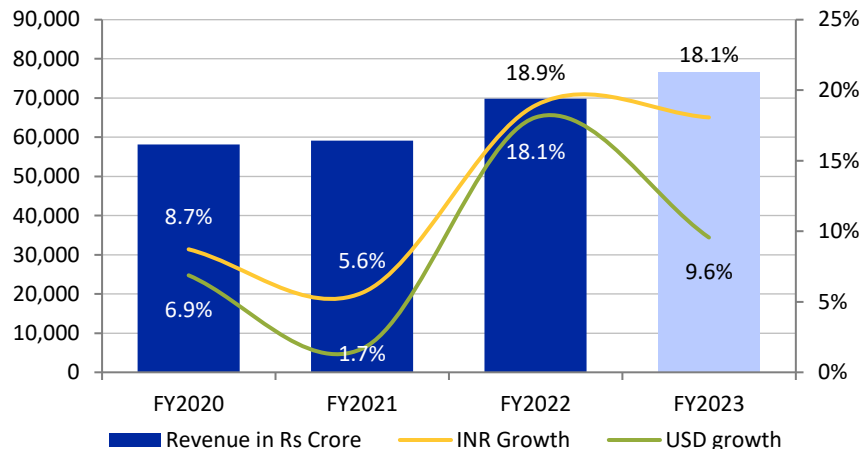
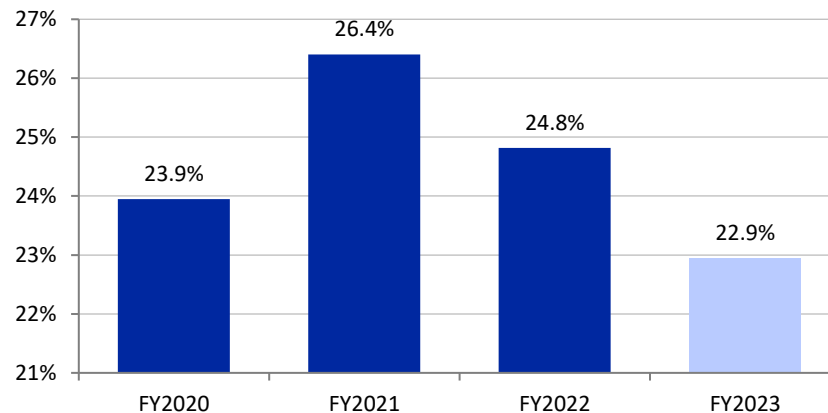


Exhibit: Trend in OPM of ICRA Sample Set



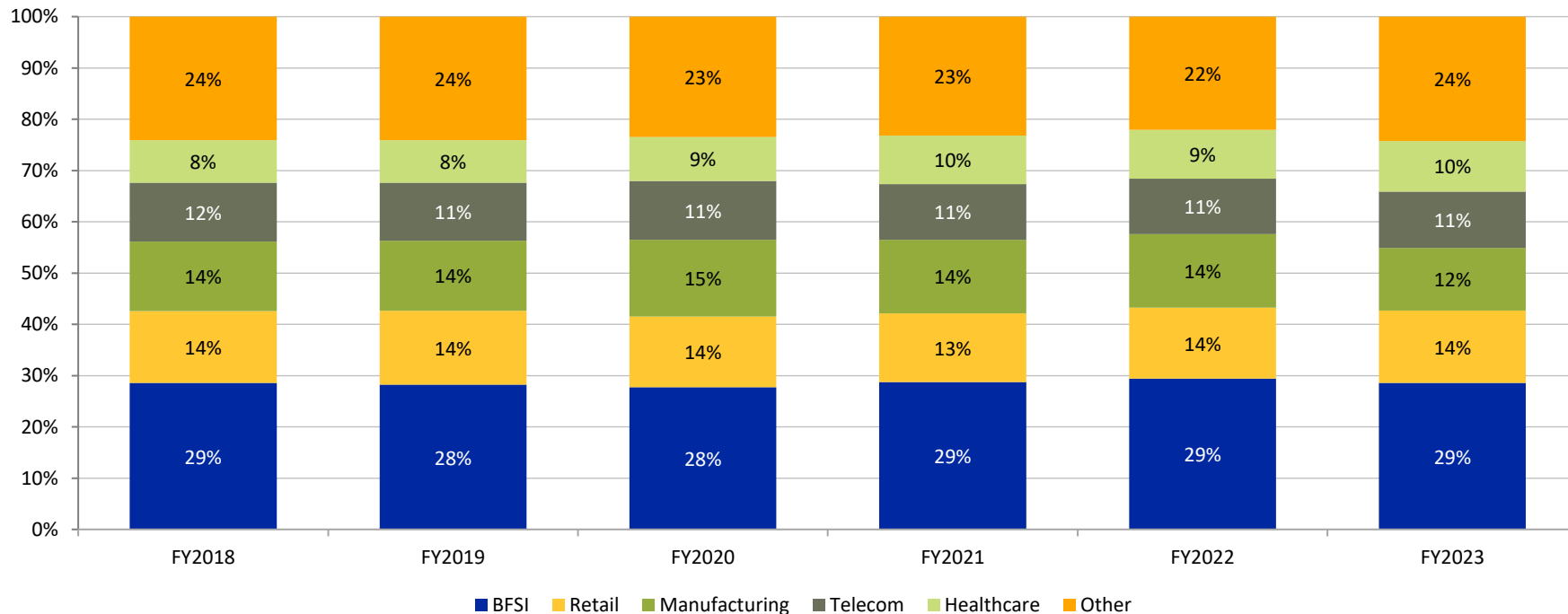
- The USD-denominated revenue growth for ICRA sample set witnessed moderation in FY2023 due to lower growth in H2 FY2023 (7.5% as against 11.7% in H1 FY2023). The INR growth was, however, supported by the depreciation of the INR against USD.
- The OPM witnessed moderation by ~190 bps in FY2023 due to wage cost inflation and some normalisation of operational overheads. ICRA expects margins to remain at similar levels due to moderation in wage cost inflation amidst reducing attrition.

Source: Company data, ICRA Research; ICRA sample set of five companies (HCL Technologies Ltd, Infosys Ltd, Tata Consultancy Services Ltd, Tech Mahindra Ltd and Wipro Ltd.)

BFSI contributes about 28-30% to the revenues of major IT services companies

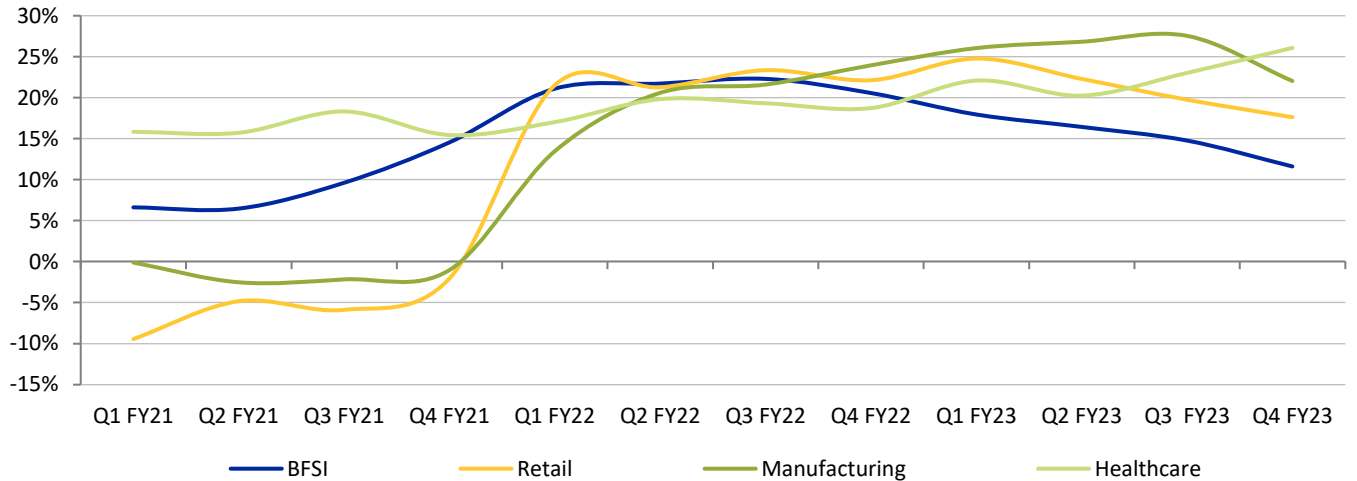


Exhibit: Trend in Segment-Wise Revenue Mix



Source: Company data, ICRA Research; ICRA sample set of five companies (HCL Technologies Ltd, Infosys Ltd, Tata Consultancy Services Ltd, Tech Mahindra Ltd and Wipro Ltd.)

 **Exhibit: Quarterly trend in segment-wise INR YoY revenue growth for ICRA's sample set**



- Revenues from the BFSI segment tapered more than other segments because of prevalent headwinds in the sector across the US and Europe in the past few months coupled with rising interest rates which impacted the overall mortgage market. Moreover, the retail segment has also seen sharp deceleration in growth in the past couple of quarters owing to inflationary headwinds, impacting the overall technological spend by the sector.

Source: Company data, ICRA Research; ICRA sample set of five companies (HCL Technologies Ltd, Infosys Ltd, Tata Consultancy Services Ltd, Tech Mahindra Ltd and Wipro Ltd.)

US and Europe contribute ~80-90% to the revenues of major IT services companies

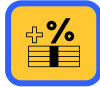
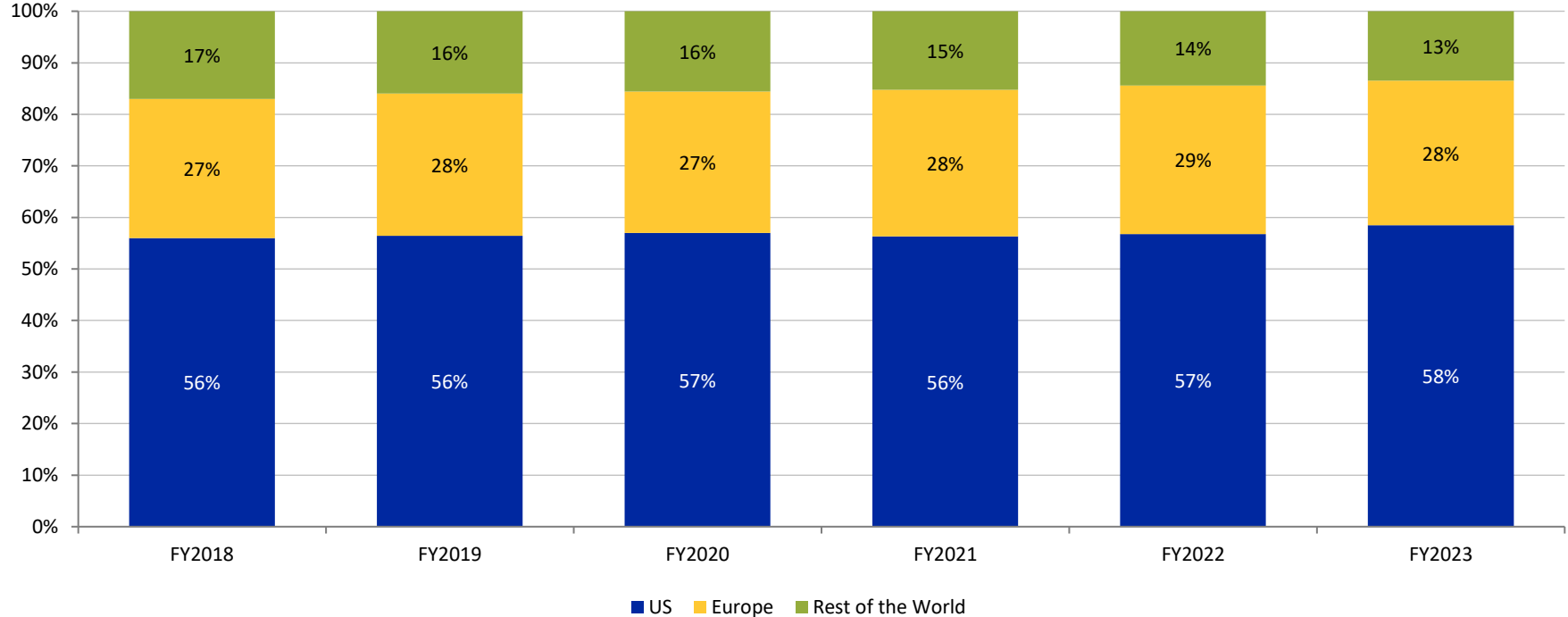


Exhibit: Trend in Geography-Wise Mix

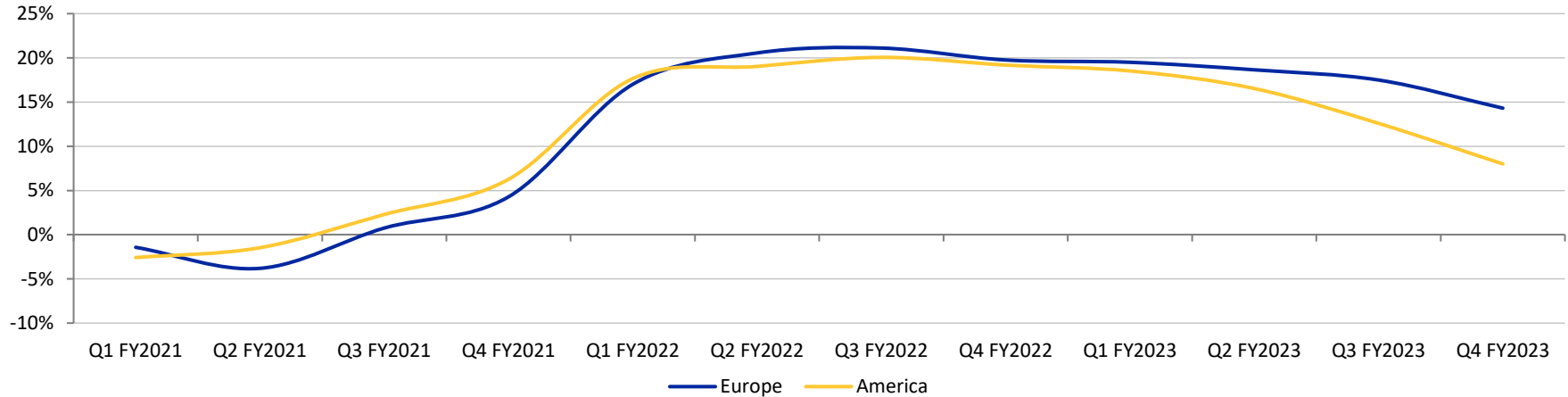


Source: Company data, ICRA Research; ICRA sample set of five companies (HCL Technologies Ltd, Infosys Ltd, Tata Consultancy Services Ltd, Tech Mahindra Ltd and Wipro Ltd.)

America witnessed sharper slowdown compared to Europe in Q4 FY2023



Exhibit: Trend in revenue growth in constant currency terms in US and Europe



ICRA sample set's revenue growth in its key market, America, witnessed a sharper slowdown in growth momentum in H2 FY2023 owing to continued uncertain macro environment and banking crisis, leading to a cautious customer sentiment across segments. The revenue growth in Europe remained more resilient compared to America, largely supported by strong growth in the United Kingdom.

Rise in employee cost moderated the OPM



Exhibit: Trend in Employee Cost/OI and OPM of ICRA Sample

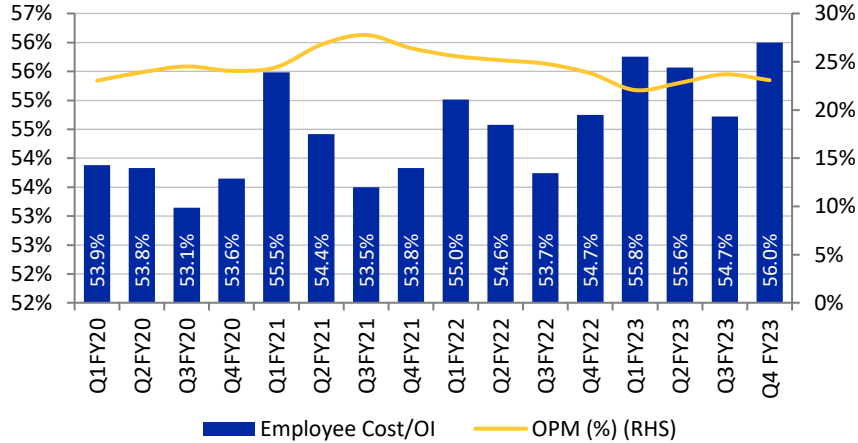
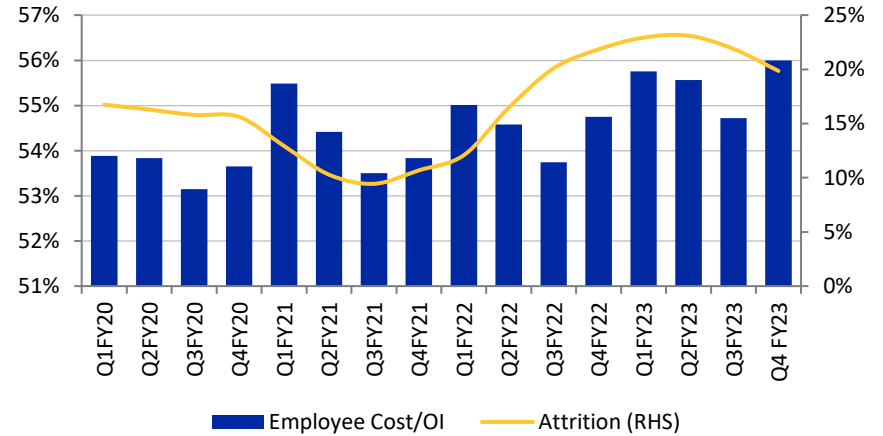


Exhibit: Trend in Employment Cost/OI and Attrition Rate of ICRA Sample



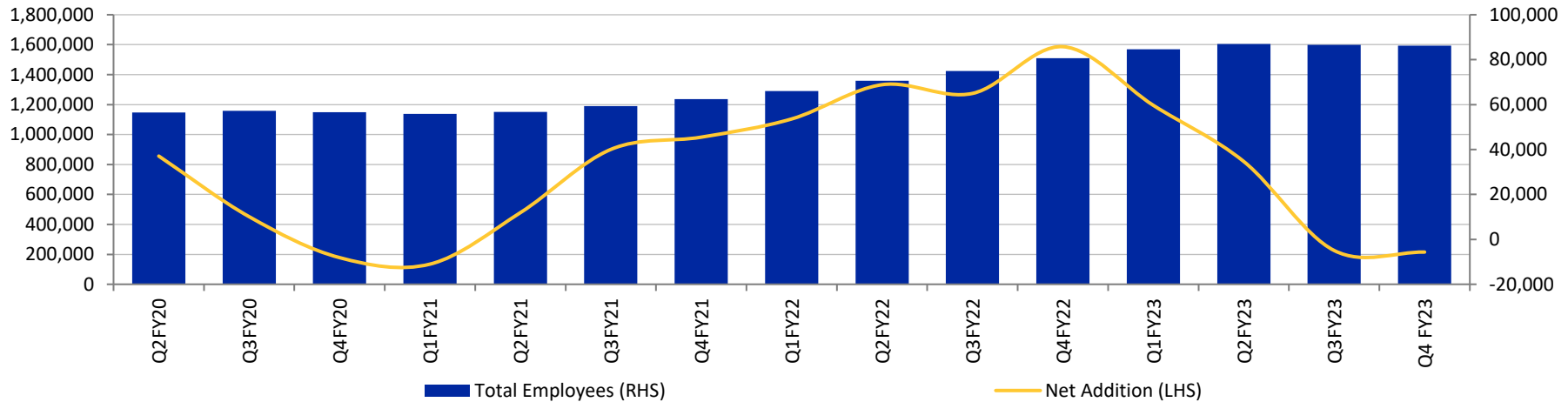
- The OPM witnessed some moderation in the last few quarters owing to wage cost inflation coupled with lower revenue growth, though it remained healthy at ~22-23%. Despite slowdown in revenue growth, ICRA expects margins to remain at similar levels, supported by stabilisation of wage costs with reduction in attrition levels, optimisation of employee pyramid and employee utilisation.
- The last twelve-month (LTM) attrition of ICRA's sample set is on a declining trend over the last three quarters. ICRA expects the attrition rate to further decline over the next one-two quarters before stabilising.

Source: ICRA Research; ICRA sample set of five companies (Tata Consultancy Services Ltd., Infosys Ltd, Wipro Ltd, HCL Technologies Ltd and Tech Mahindra Ltd.) and their publicly available disclosures

Net employee addition declined to almost zero in H2 FY2023 for ICRA's IT sample companies



Exhibit: Quarterly trend in net employee addition for ICRA's sample set



- Hiring by IT services companies in FY2022 was an all-time high buoyed by strong demand for digital technologies and to combat the surge in attrition levels. However, the hiring moderated considerably in FY2023 with the top-5 IT services companies witnessing a net employee addition of 83,906 in FY2023 against 273,377 in FY2022. The net addition is negative in the last two quarters for the aggregate of top IT services companies because of moderation in demand coupled with increase in utilisation of excess capacity added in FY2022. ICRA expects hiring to remain at low levels in the near term till the macroeconomic uncertainty continues.

Source: Company data, ICRA Research; ICRA sample set of five companies (HCL Technologies Ltd, Infosys Ltd, Tata Consultancy Services Ltd, Tech Mahindra Ltd and Wipro Ltd.)

ICRA's Rating List – IT Services Companies

Company/Originator	Long-term Rating	Outlook	Short-term Rating
24/7 Customer Private Limited	[ICRA]BBB	(Stable)	[ICRA]A3+
Ample Digital Private Limited	[ICRA]BB	(Stable)	[ICRA]A4
Ample Retail Private Limited	[ICRA]BB	(Stable)	[ICRA]A4
Ascendum Solutions India Private Limited	[ICRA]BBB-	(Stable)	
ASM Technologies Limited	[ICRA]BBB	(Stable)	[ICRA]A3+
Atyati Technologies Private Limited	[ICRA]BBB+	(Stable)	
C-Edge Technologies Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Central Data Systems Private Limited	[ICRA]BB+	(Stable)	
CtrlS (India) Private Limited	[ICRA]A-	(Stable)	
CtrlS Datacenters Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Datamatics Global Services Limited	[ICRA]A+	(Stable)	[ICRA]A1+
Embee Software Private Limited	[ICRA]BBB+	(Stable)	[ICRA]A2
Emudhra Limited	[ICRA]BBB+	(Positive)	[ICRA]A2
Genisys Information Systems (India) Private Limited	[ICRA]BB+	(Stable)	[ICRA]A4+
Girnar Software Pvt. Ltd.	[ICRA]BBB-	(Stable)	
HCL Technologies Limited	[ICRA]AAA	(Stable)	[ICRA]A1+
IBM India Private Limited	[ICRA]AA+	(Stable)	[ICRA]A1+
IGT Solutions Pvt. Ltd.	[ICRA]A-	(Stable)	
In-Solutions Global Limited	[ICRA]BBB	(Stable)	[ICRA]A3+

ICRA's Rating List – IT Services Companies

Company/Originator	Long-term Rating	Outlook	Short-term Rating
Iris Business Services Limited	[ICRA]BB+	(Stable)	[ICRA]A4+
Kochar Infotech Limited	[ICRA]BBB	(Stable)	[ICRA]A3+
KPIT Technologies Limited	[ICRA]AA	(Stable)	[ICRA]A1+
Lentra AI Private Limited	[ICRA]BB-	(Stable)	
Marina Distributors	[ICRA]BB+	(Stable)	
Mastek Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Motherson Technology Services Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Mphasis Limited	[ICRA]AA+	(Stable)	[ICRA]A1+
NTT Global Data Centers & Cloud Infrastructure India Private Limited	[ICRA]AA+	(Stable)	[ICRA]A1+
Onward Technologies Limited	[ICRA]BBB	(Stable)	[ICRA]A3+
Ramco Systems Limited	[ICRA]A	(Negative)	[ICRA]A2+
Rapidue Technologies Private Limited	[ICRA]BB+	(Stable)	[ICRA]A4+
Rocket Kommerce LLP	[ICRA]A-	(Stable)	[ICRA]A2+
Sasken Technologies Limited			[ICRA]A1+
Sify Technologies Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Tata Consultancy Services Limited	[ICRA]AAA	(Stable)	[ICRA]A1+
Virtusa Consulting Services Private Limited	[ICRA]A	(Stable)	
Wipro Limited	[ICRA]AAA	(Stable)	[ICRA]A1+
Zensar Technologies Limited	[ICRA]AA+	(Stable)	[ICRA]A1+



Click to Provide Feedback



ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Group Head	shamsherd@icraindia.com	0124 – 4545 328
Kinjal Shah	Co-Group Head	kinjal.shah@icraindia.com	022 – 6114 3442
Deepak Jotwani	Sector Head	deepak.jotwani@icraindia.com	0124 – 4545 870
Pawan Mundhra	Senior Analyst	pawan.mundhra@icraindia.com	020 – 6606 9918





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693377
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





© Copyright, 2023 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



ICRA

Thank You!