



INDIAN IT SERVICES INDUSTRY

Hiring unlikely to pick up materially
over the near time as growth
momentum yet to recover

DECEMBER 2024





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Hiring is expected to remain low until the demand outlook improves; it is likely to pick up materially only by the end of H1 FY2026.

As Gen AI makes rapid inroads, all leading IT services companies are upskilling their employees for tech skills as they explore AI-driven business opportunities. This is likely to lead to an overall moderation in fresh hiring, as compared to pre-Covid levels.



Moderation in demand coupled with the increase in utilisation of excess manpower added during FY2022-FY2023 exerted pressure on hiring by IT services companies through FY2024 and Q1 FY2025. Coupled with an increase in attrition levels, this also led to negative net employee addition for the seven quarters till Q1 FY2025 for ICRA's sample set companies. While there has been some recovery in Q2 FY2025, ICRA expects hiring to remain low in the near term until the growth momentum picks up by H2 FY2026.



Average revenue in USD per employee for the sample set has largely been stable at around USD 50,000 over FY2020-FY2024. However, this metric will show steady improvement if assessed on revenue in rupee terms due to depreciation of the rupee against some key foreign currencies over this period. The impact of higher adoption of Generative AI (Gen AI) on improving employee productivity is expected to be visible over the next few years.



The last twelve-month (LTM) attrition rate had peaked at ~23% during Q4 FY2022 and Q1 FY2023, led by significant hiring and subsequent demand-supply mismatch. However, it sequentially tapered with lower hiring by IT services companies amid moderation in demand in key markets of the US and Europe. The LTM attrition rate for ICRA's sample set companies started stabilising from Q3 FY2024 at ~13%, much lower than the pre-pandemic level of ~18% in Q1 FY2020 for the sample set companies.



Employee cost as a percentage of operating income for ICRA's sample set increased steadily to 58% in FY2024 from ~54% in FY2021, due to moderation in revenue growth coupled with wage cost inflation amid surge in attrition levels till H1 FY2024. While this has exerted pressure on operating profit margins (OPM) of the companies, they have been able to partly offset the same through increased operating efficiencies and employee utilisation levels. ICRA expects the OPM for its sample set companies to largely remain stable at 21-22% over FY2025-FY2026.

1 Key reasons for slowdown in hiring in the IT services industry



2 Hiring and headcount trend for Top-5 IT services companies



3 Trend in employee cost and operating profit margins

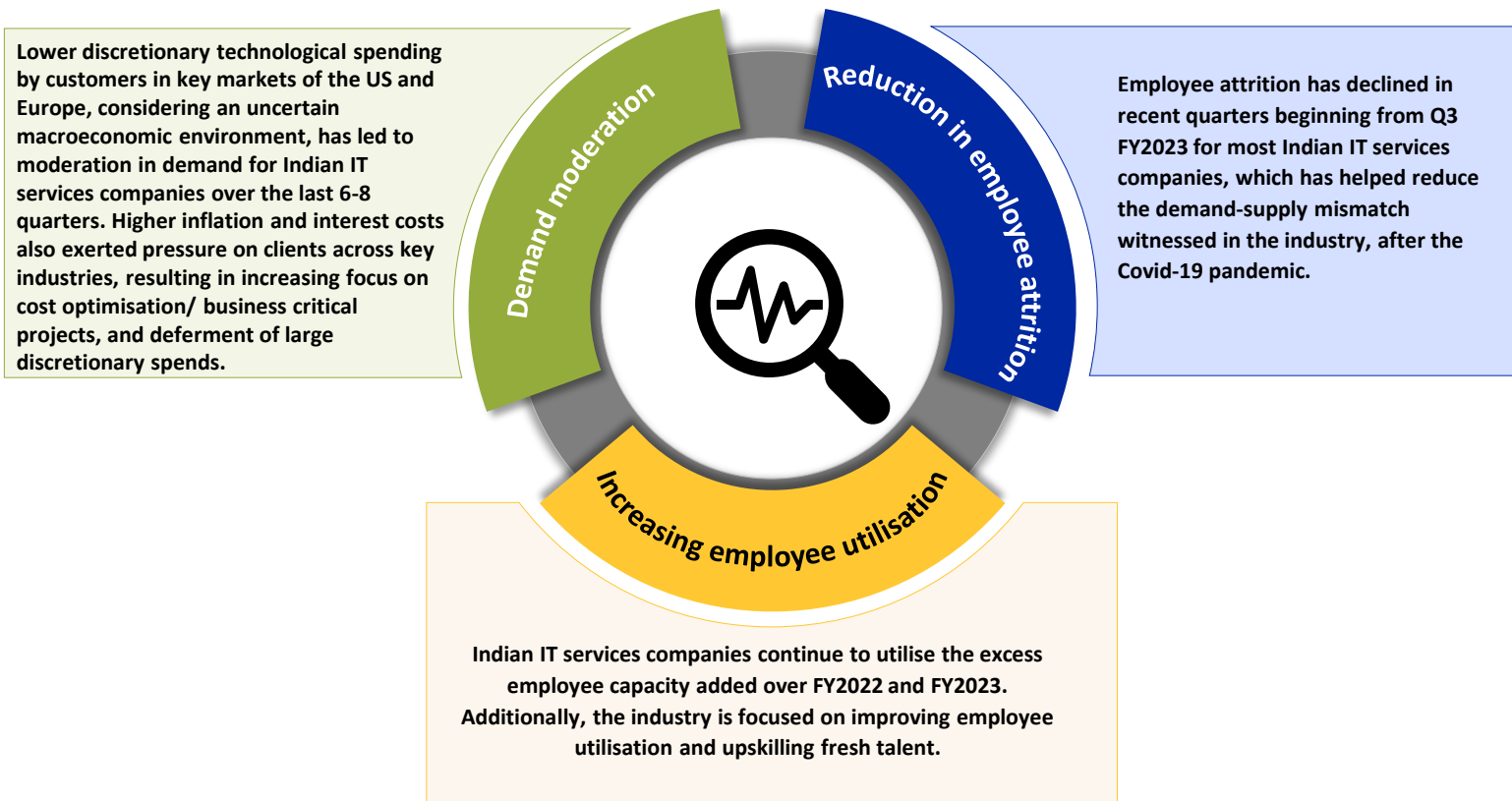


4 Way forward



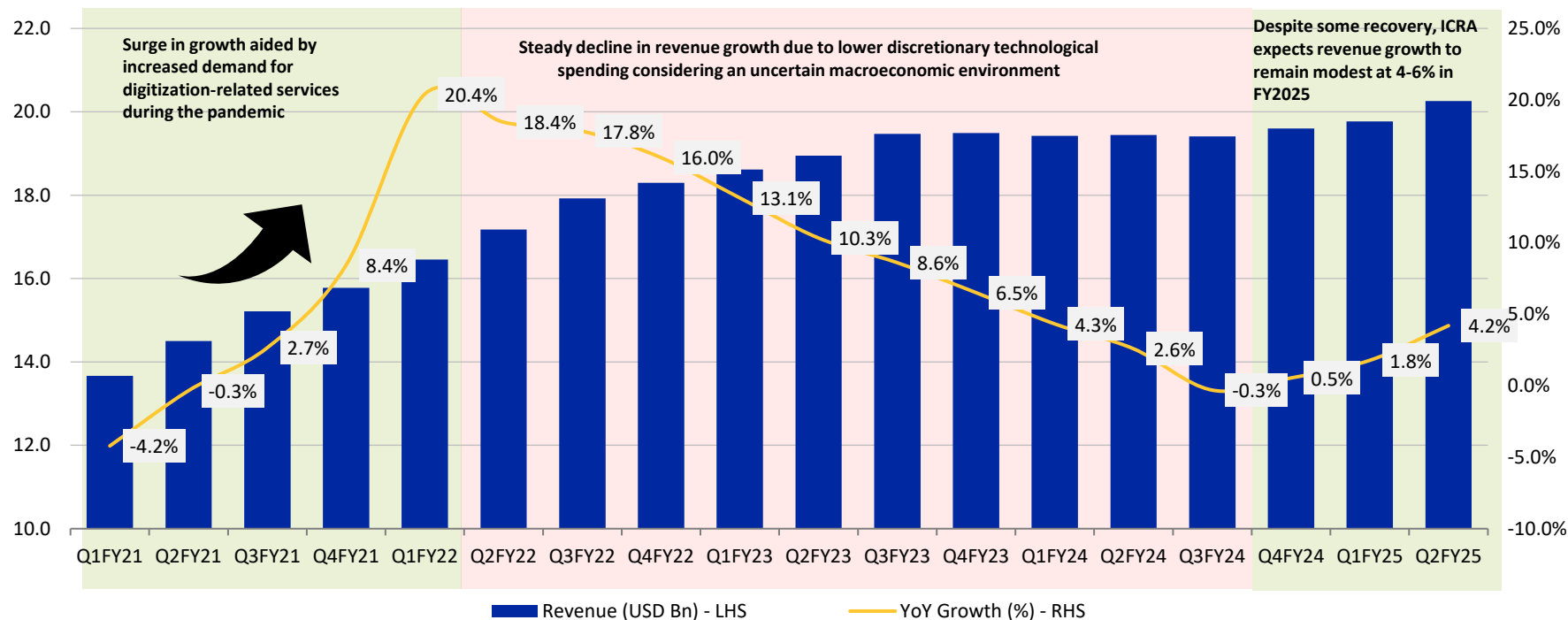
5 Rating actions





Revenue growth has tapered due to slowdown in discretionary IT spending in key markets

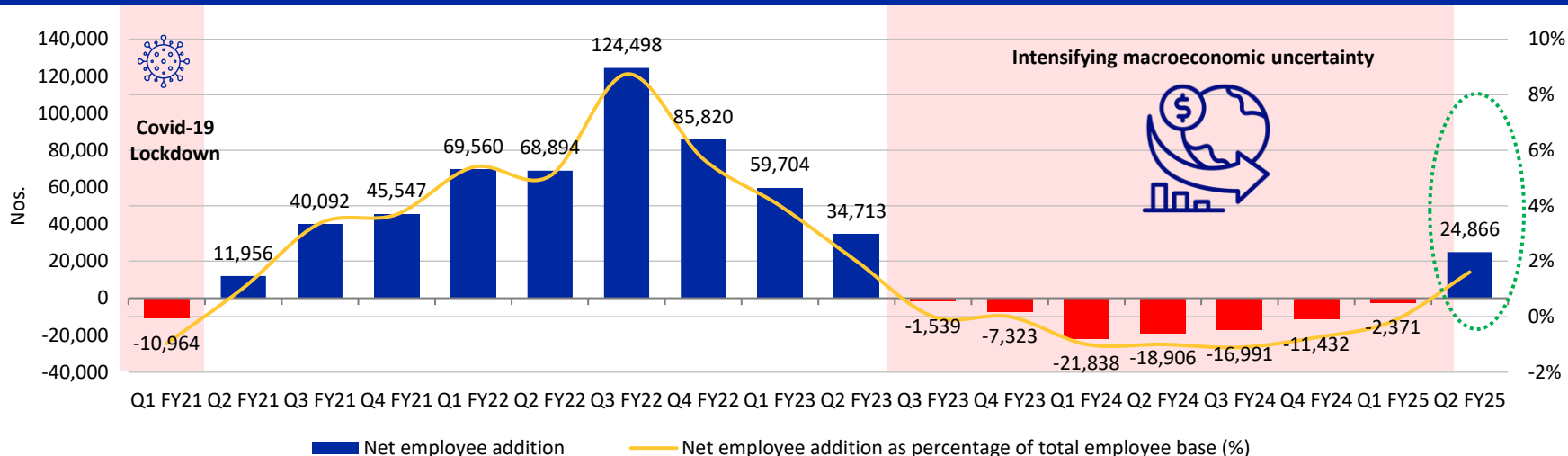
Exhibit: Trend in quarterly revenue growth of ICRA's sample set companies*



Source: ICRA Research; *ICRA's sample set of five companies: HCL Technologies Ltd., Infosys Ltd, Tata Consultancy Services Ltd. , Tech Mahindra Ltd. and Wipro Ltd.

Negative net employee addition in recent quarters; some recovery in Q2 FY2025

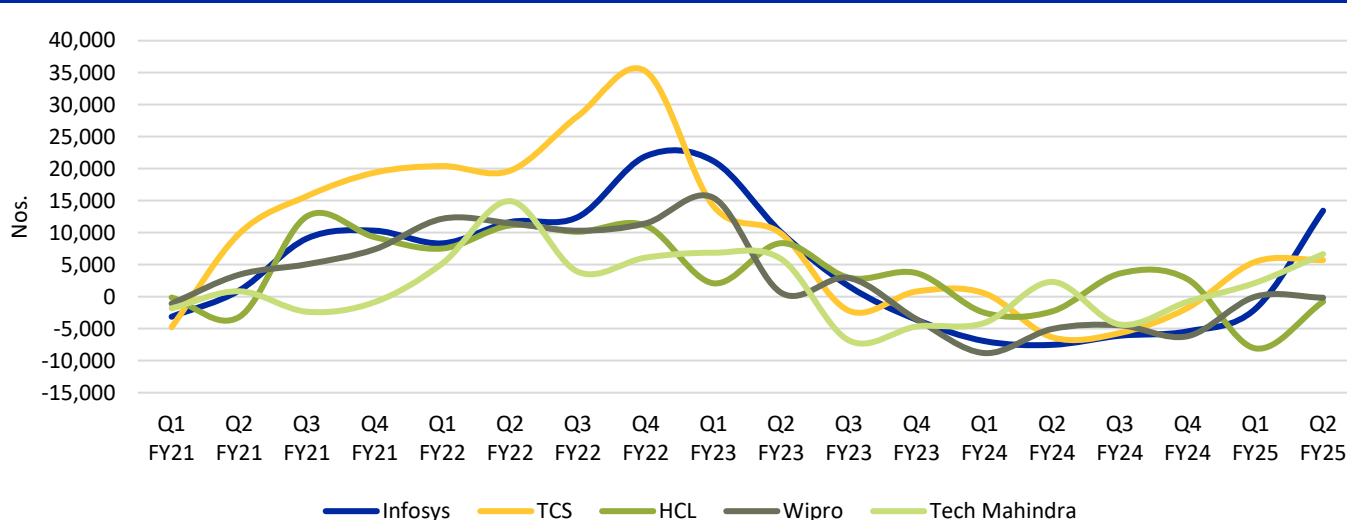
Exhibit: Trend in net employee addition for ICRA's sample set companies



- Hiring by IT services companies had been at an all-time high in FY2022 and H1 FY2023, buoyed by strong demand for digital technologies and to combat the surge in attrition levels. Subsequently, moderation in demand coupled with the increase in utilisation of excess capacity added during FY2022 and FY2023 exerted pressure on hiring by IT services companies through FY2024 and Q1 FY2025. Together with an increase in attrition levels, this also led to negative net employee addition for the seven quarters till Q1 FY2025 for ICRA's sample set companies.
- While there has been some recovery in Q2 FY2025, ICRA expects hiring to remain low in the near term until the growth momentum picks up. The formation of the new Government in the US may create some policy uncertainty in the immediate term and thus will remain a monitorable.

TCS has maintained its lead in terms of total headcount

Exhibit: Trend in quarterly addition over total headcount for ICRA's sample set companies



- In line with the trend witnessed in recent years, five leading IT services companies accounted for ~75% of the total net employee additions at the industry level in FY2024. However, given moderation in demand outlook, gross hiring by IT companies has remained flattish in recent quarters.
- In H1 FY2025, while TCS, Infosys and Tech Mahindra reported net employee addition of 8,000-11,000 each, HCL and Wipro continued to report negative net addition to their employee base.

Revenue generation per employee has largely been maintained

Exhibit: Trend in average revenue per employee (USD)

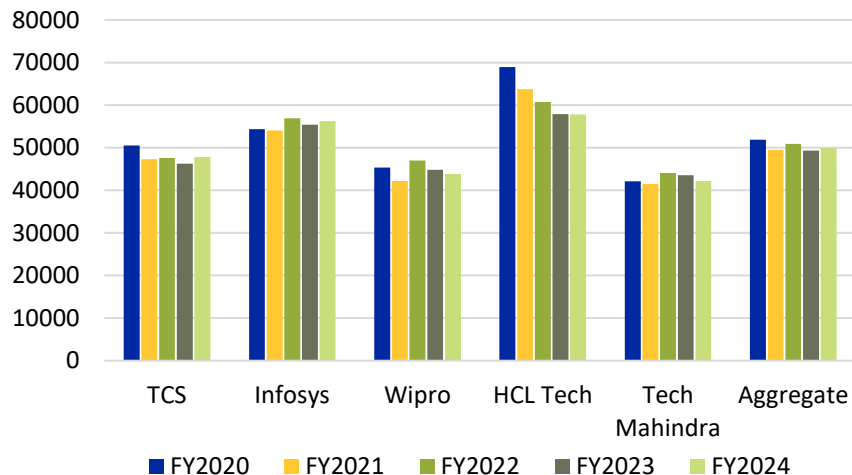
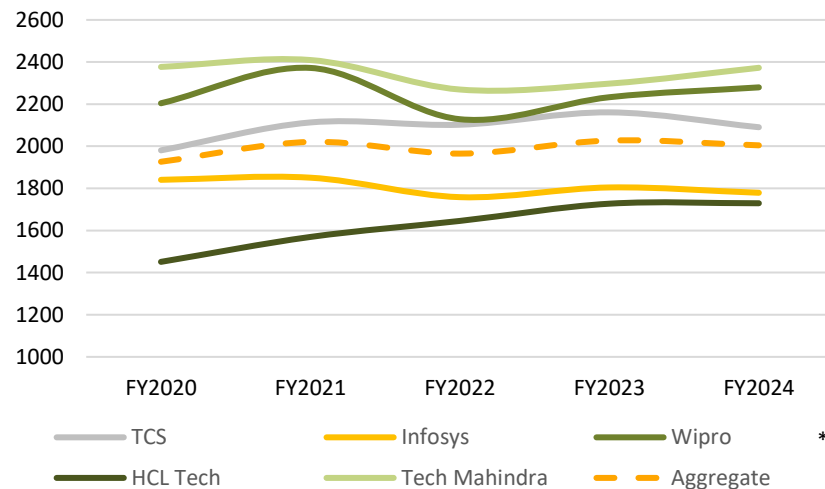


Exhibit: Trend in number of employees per USD 100 million revenues

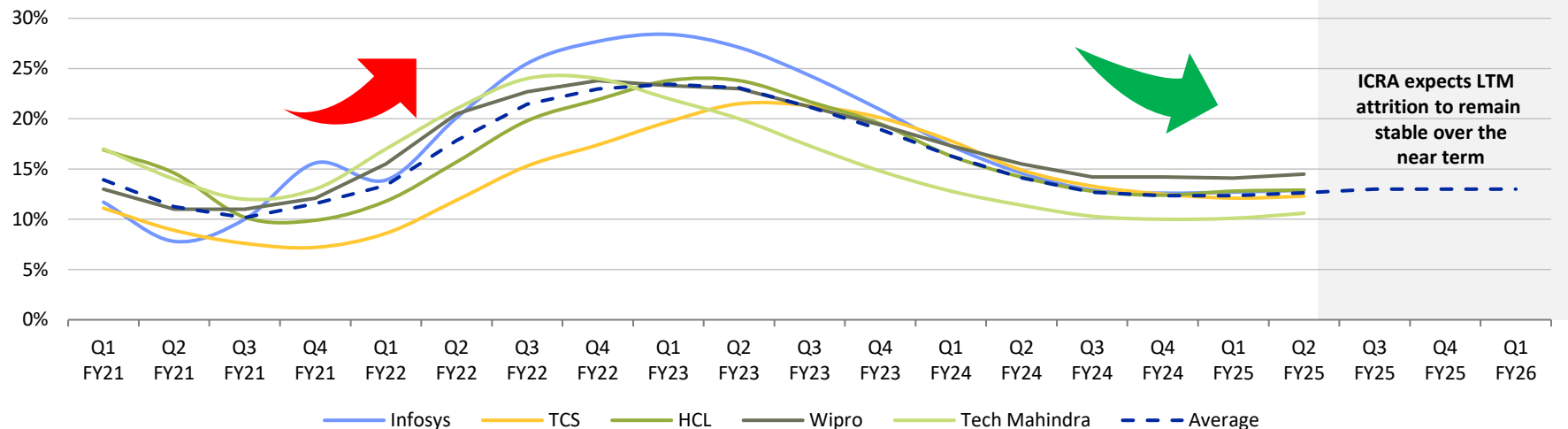


- Average revenue per employee for the sample set has largely been maintained at ~USD 50,0000 over FY2020-FY2024. Consequently, the number of employees required for every USD 100 million of revenue generation has also largely remained stable at ~2000 over the same period. However, the same parameters assessed on revenue reported in rupee terms will show steady improvement over this period, primarily due to depreciation of the rupee against some key foreign currencies.
- However, the impact of higher adoption of Gen AI on improving employee productivity is expected to be visible over the next few years.

Source: ICRA Research; *ICRA's sample set of five companies: HCL Technologies Ltd., Infosys Ltd, Tata Consultancy Services Ltd. , Tech Mahindra Ltd. and Wipro Ltd.

Employee attrition has stabilised in recent quarters

Exhibit: Trend in LTM attrition rate for ICRA's sample set companies



- The LTM attrition rate had peaked at ~23% during Q4 FY2022 and Q1 FY2023, led by significant hiring and subsequent demand-supply mismatch. However, it sequentially tapered down with lower hiring by IT services companies amid moderation in demand in key markets. The LTM attrition rate for ICRA's sample set companies started stabilising from Q3 FY2024 at ~13%, lower than the pre-pandemic level of ~18% in Q1 FY2020.

Wage cost inflation and its consequent impact on profit margins also constrained hiring

Exhibit: Trend in average cost per employee (Rs. lakh) for ICRA's sample set companies

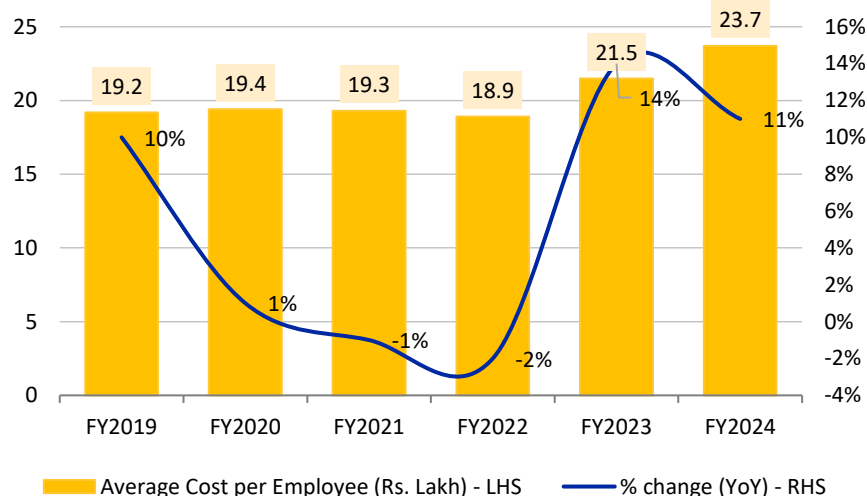
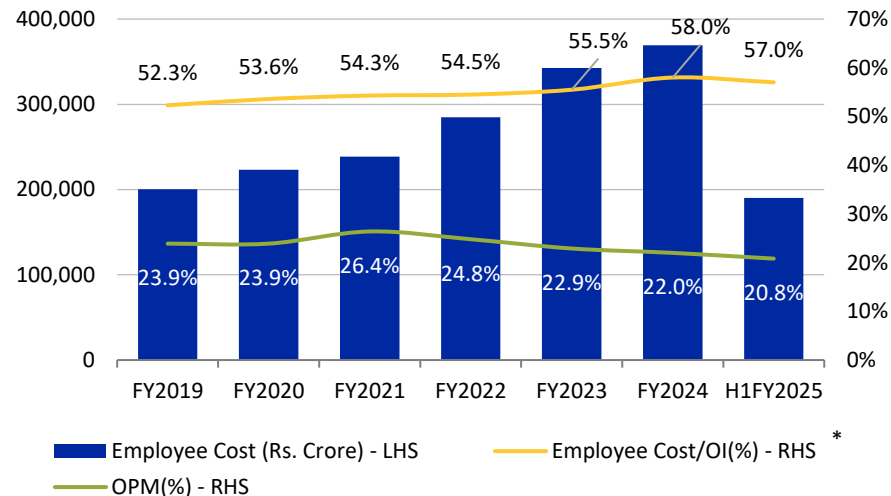
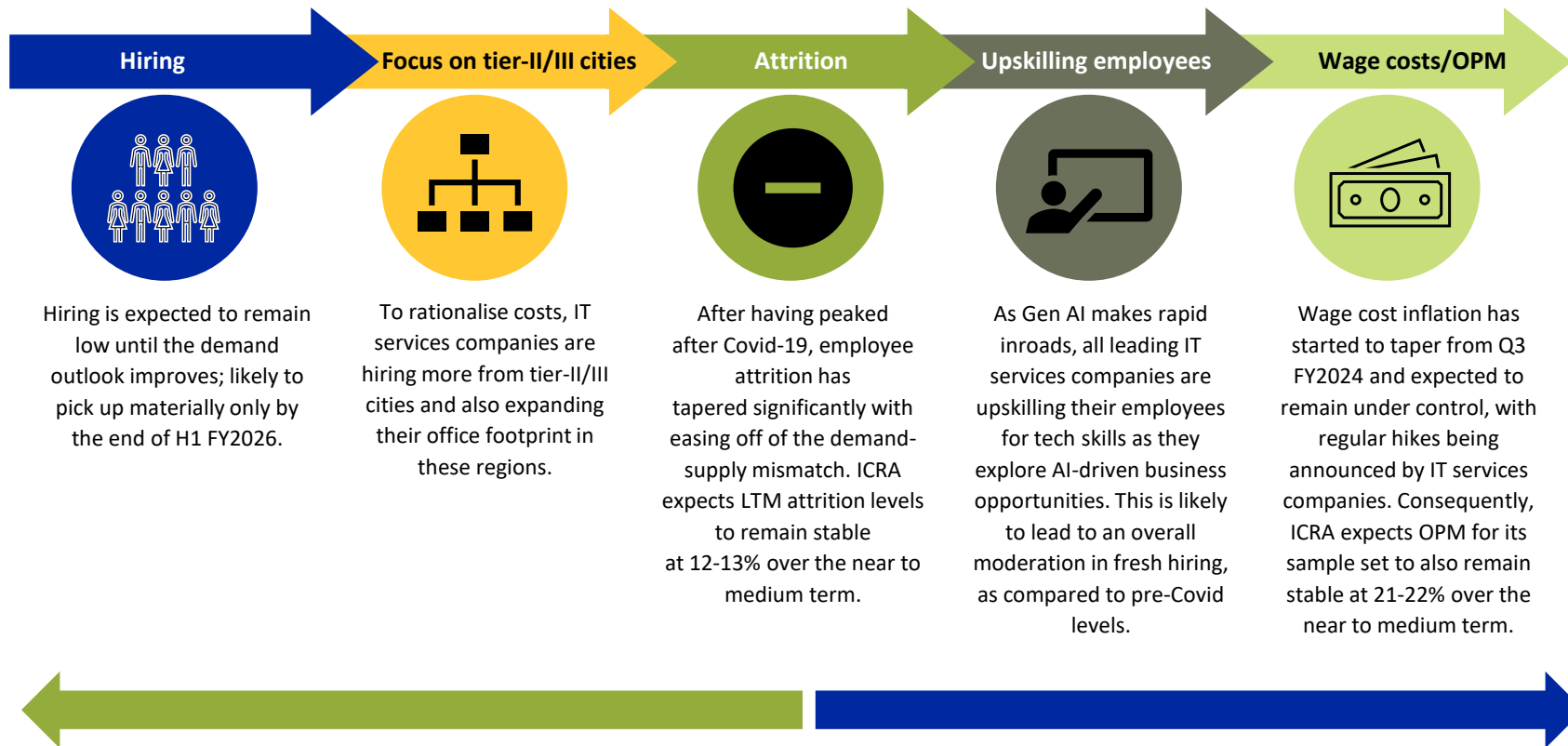


Exhibit: Trend in employee cost and OPM for ICRA's sample set companies



- Employee cost as a percentage of operating income for Indian IT services companies increased steadily in the recent years to 58% in FY2024 from ~54% in FY2021 due to moderation in revenue growth coupled with wage cost inflation amid surge in attrition levels till H1 FY2024. This has also led to lower hiring by IT services companies, to rationalise costs.
- While this has exerted pressure on OPM of companies, they have been able to partly offset the same through increased operating efficiencies and employee utilisation levels. ICRA expects the OPM for its sample set companies to largely remain stable at 21-22% over FY2025–FY2026.

Source: ICRA Research; *ICRA's sample set of five companies: HCL Technologies Ltd., Infosys Ltd, Tata Consultancy Services Ltd. , Tech Mahindra Ltd. and Wipro Ltd.



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Exhibit: Ratings upgrade/ downgrade across IT services companies

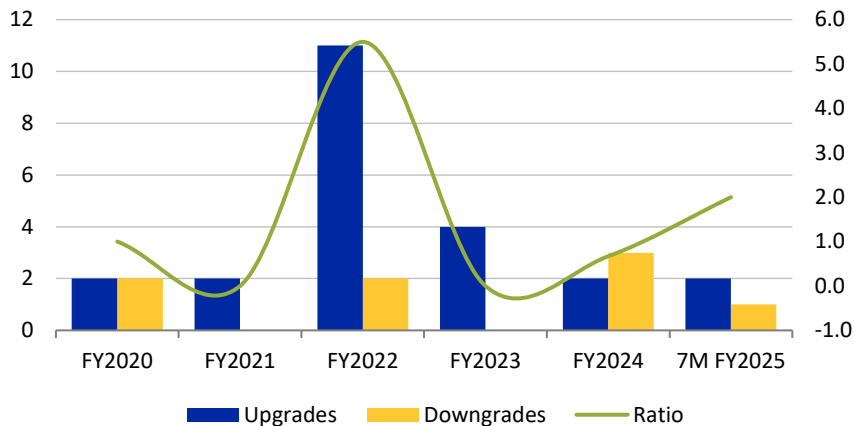
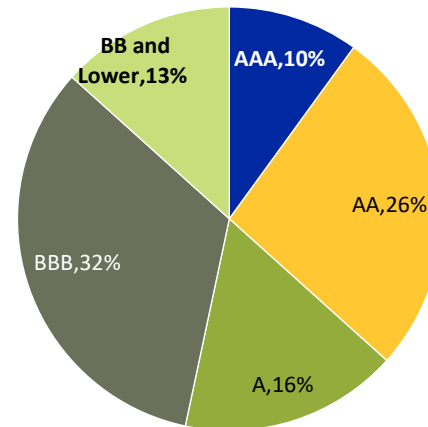


Exhibit: Distribution of ratings for IT services industry



- ICRA has a total of 31 entities rated under the IT and BPO industry, distributed across IT services and IT BPO.
- Approximately 84% of the rated entities are in investment grade category for the IT services sector. This is a reflection of the healthy cash flow generation led by higher margins and low working capital requirements. Further, with low capex requirements, entities in the industry have been generating free cash flows leading to net surplus of cash and liquid investments.
- There have been two upgrades in FY2024 and 7M FY2025 driven by a strengthening of their credit profile of those companies, aided by healthy growth in revenues and increased accrual generation, while maintaining a comfortable capital structure. There was a single downgrade in 7M FY2025 owing to pressure on earnings due to flattening revenue growth curve, as compared to higher manpower costs.

ICRA-rated entities in IT services industry

Name of Issuer	Long-term Rating	Outlook	Short-term Rating
24/7 Customer Private Limited	[ICRA]BBB	Stable	[ICRA]A3+
Ascendum Solutions India Private Limited	[ICRA]BBB-	Stable	-
ASM Technologies Limited	[ICRA]BB+	Stable	[ICRA]A4+
C-Edge Technologies Limited	[ICRA]AA-	Stable	[ICRA]A1+
Conneqt Business Solutions Limited	[ICRA]A+	RWDI	[ICRA]A1+
Datamatics Global Services Limited	[ICRA]A+	Stable	[ICRA]A1+
Embee Software Private Limited	[ICRA]BBB	Stable	[ICRA]A3+
Emudhra Limited	[ICRA]A-	Positive	[ICRA]A2+
Genisys Information Systems (India) Private Limited	[ICRA]BB+	Stable	-
HCL Technologies Limited	[ICRA]AAA	Stable	[ICRA]A1+
IBM India Private Limited	[ICRA]AA+	Negative	[ICRA]A1+
IGT Solutions Pvt. Ltd.	[ICRA]A	Stable	[ICRA]A1
In-Solutions Global Limited	[ICRA]BBB	Stable	[ICRA]A3+
Iris Business Services Limited	[ICRA]BBB-	Positive	[ICRA]A3
Kochar Infotech Limited	[ICRA]BBB	Stable	[ICRA]A3+

ICRA-rated entities in IT services industry

Name of Issuer	Long-term Rating	Outlook	Short-term Rating
KPIT Technologies Limited	[ICRA]AA	Stable	[ICRA]A1+
Lentra AI Private Limited	[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+
Onward Technologies Limited	[ICRA]BBB	Stable	[ICRA]A3+
Ramco Systems Limited	[ICRA]BBB+	Stable	[ICRA]A2
Sasken Technologies Limited	-	-	[ICRA]A1+
Sify Digital Services Limited	[ICRA]A	Stable	[ICRA]A1
Sify Technologies Limited	[ICRA]AA-	Stable	[ICRA]A1+
Tata Consultancy Services Limited	[ICRA]AAA	Stable	[ICRA]A1+
Trigyn Technologies Ltd.	[ICRA]BB-	Stable	[ICRA]A4
Wipro Limited	[ICRA]AAA	Stable	[ICRA]A1+
Zensar Technologies Limited	[ICRA]AA+	Stable	[ICRA]A1+
Epicenter Technologies Private Limited	[ICRA]BBB	Stable	[ICRA]A3+
Sagility India Private Limited	[ICRA]BBB	Stable	[ICRA]A3+



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