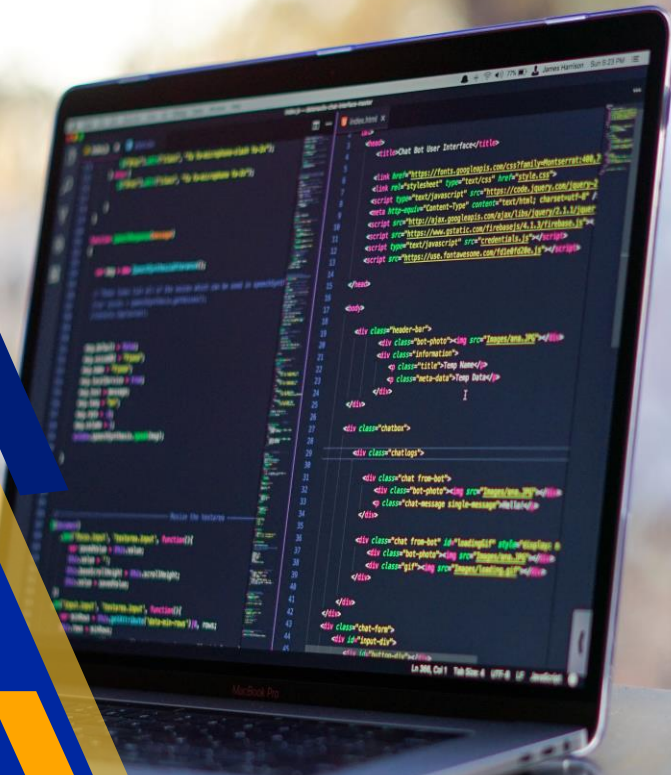




INDIAN IT SERVICES INDUSTRY

**FY2026 unlikely to witness any
material uptick in growth
momentum**

FEBRUARY 2025



1 Global Trends in Outsourcing



2 Trends in Performance of Indian IT Services Industry



3 Outlook



4 Peer Comparison



5 Rating Actions





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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. Notwithstanding steady outflow towards dividend pay-out, share buybacks and investments in acquisitions to fuel inorganic growth, the liquidity position of ICRA's sample set companies will remain strong.



Notwithstanding some recovery in recent quarters, FY2026 is unlikely to witness any material uptick in growth momentum compared to FY2025. ICRA's sample set is estimated to report modest YoY revenue growth of 4-6% in USD terms in FY2025 and FY2026 (against 1.7% in FY2024).



The US and Europe together have accounted for 80-90% of the industry's revenues and growth in both these markets moderated over recent quarters due to persistent macroeconomic headwinds. Growth in Europe has been more resilient compared to the US, supported by healthy deal execution in some key segments such as BFSI and healthcare, as reported by some of the industry players.



Despite tepid growth, ICRA's sample set's OPM is expected to remain healthy at 22-23% in FY2025 and FY2026, in line with FY2024 levels, supported by stabilisation of wage costs. Most companies' ability to work with multiple levers such as employee utilisation, employee pyramid optimisation etc. to manage costs, is expected to support the margins.



Hiring is expected to remain low until the demand outlook improves; it is likely to pick up materially only by H2 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, compared to pre-Covid levels.



In the last 12 months (LTM) attrition for ICRA's sample set companies tapered significantly 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 corrected the demand-supply mismatch witnessed earlier. ICRA expects attrition levels to stabilise at a long-term average of 12-13% over the near term.

Note: *ICRA sample set of 15 companies (Birlasoft Ltd., Coforge Ltd., Cyient Ltd., HCL Technologies Ltd., Infosys Ltd., LTIMindtree, L&T Technology Services Ltd., Mastek Ltd., Mphasis Ltd., Oracle Financial Services Software Ltd., Persistent Systems Ltd., Tata Consultancy Services Ltd., Tech Mahindra Ltd., Wipro Ltd. and Zensar Technologies Ltd.) and their publically available disclosures



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