

INDIAN INFORMATION TECHNOLOGY (IT) SERVICES INDUSTRY

**Steady but subdued: IT services'
revenue growth to stay modest at 2-
3% in USD terms in FY2026**

June 2025



1 Impact of US tariffs on revenue growth prospects



2 India-UK FTA to augur well for the industry



3 Outlook



4 Rating actions





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ICRA maintains a Stable outlook for the IT industry. The outlook is supported by the well-established business position of Indian IT players, controlled wage costs, and stable attrition rates, which are expected to enable the industry to maintain a steady margin profile.



Notwithstanding some recovery in operating income rise in recent quarters, the Indian IT services industry is unlikely to witness any material uptick in earnings momentum in FY2026 owing to the uncertainties arising due to US tariff imposition. ICRA's sample set of IT services companies is estimated to report a modest YoY revenue growth of 2-3% in USD terms in FY2026 (against 2.9% in FY2025).



The US and Europe together account for 80-90% of the industry's revenues; growth across these markets remained moderate through FY2025 with Q4 FY2025 witnessing a modest decline. The performance in these markets in Q1 FY2026 will remain modest, given the US tariff uncertainty impacting IT budget spends.



Despite record order wins in Q4 FY2025, the conversion to revenues will witness further delays as customers remain cautious due to the global uncertainty. The impact on revenue growth through FY2026 is unclear, but higher tariffs may delay orders and limit IT deal wins due to spending constraints.



Employee hiring is expected to remain low until the demand outlook improves. Hiring in subsequent quarters of FY2026 will align with sectoral growth, with skills becoming crucial amid rapid adoption of artificial intelligence (AI) and generative AI (GenAI) technologies.



India-UK Free Trade Agreement (FTA) will augur well for the Indian IT services industry. The exemption of social security contribution for three years for UK-based temporary Indian employees and their employers is expected to enhance workforce mobility. However, the financial impact of this measure may be modest for the industry.



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