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No big deals: Top IT firms see dip in volumes in first quarter

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New client additions will start moving to the higher revenue band in the quarters to come, say analysts. - Getty Images

But industry analysts say the situation is set to improve in second half of current fiscal

Deal wins across revenue bands for the top four IT companies – TCS, Infosys, Wipro and HCL Technologies – have slowed down in the first quarter of FY22.

According to data shared exclusively by Care Ratings with *BusinessLine*, the quarterly deals of under \$1 million, which drives most of the overall deal volumes of IT companies, fell by nearly 76.92 per cent to 15 deals in the first quarter of FY22 against 65 deals in the same quarter last year.

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New large deals of over \$100 million stood at only seven over the past five quarters across the four IT majors, while there was an overall decline of four deals in the total deals currently active in the category.

The only exception to the trend has been the \$10-million-plus deals category which showed some increase over the quarters. It grew from minus eight deals in Q1FY21 to 16 deals in Q1FY22.

Industry analysts, however, are not worried about this trend as they believe that the situation is set to improve in the second half of FY22, with the inflow of more big-ticket deals in the pipeline.

Concentration in low band

“In the initial months of the pandemic, most of the deals were concentrated in the lowest band of \$1 million plus, which shows that H1FY21 was characterised by a much larger volume of relatively smaller sized deals, due to the fall in technology budgets of corporates. However, H2FY21 onwards, this trend started declining and the new client additions grew in \$10 million plus band as clients preferred vendor

consolidation. This led to cost savings and the benefit of dealing with a single IT service provider that could suit all its needs,” Vahishta Unwalla, Lead Analyst- Industry Research, Care Ratings told *BusinessLine*.

Pandemic has proven to be a boon for IT companies as clients across industries and sectors were looking for digital transformation, especially the financial services sector.

“It is possible that new client additions will start moving to the higher revenue band in the quarters to come. A lot shall also be dependent on how the various verticals are performing. For instance, in Q1FY22, BFSI vertical was stable, while manufacturing, communication and retail witnessed recovery,” she added.

Amit Chandra, Institutional Research Analyst - IT, HDFC Securities, sees this as a “good sign” for the industry as he expects more and more existing clients in the lower revenue band would start moving up and offer larger deals to the IT companies.

“Most of the IT companies, including Infosys and HCL Tech, are reporting larger deals. Large deals of \$50 million and \$100 million are ramping up. A lot of smaller clients are moving into the higher bucket which is a good sign for the industry. ‘Land and expand’ strategy is working out, the clients start with \$1 million and then go for \$10 million and \$50 million deals. Net new clients do not necessarily mean there are new clients, it’s often the existing clients moving to the higher deal bucket,” he told *BusinessLine*.

TCV numbers

He added, “We are not worried about this trend. The deal wins they are reporting in terms of Total Contract Value (TCV) is very healthy. Don’t look at it in a quarterly trend. Large deals don’t come every quarter. To process and close deals also takes time. TCV numbers will fluctuate depending on which quarter reflects that deal. Even if you add just two

large deals in a year, on a yearly basis it will show 7-8 per cent increment on the top line. For instance, in the case of TCS, the \$100-million bucket has been strong in terms of additions.”

We have to look at it in terms of TCV numbers and client size, instead of the number of deals, Chandra said.

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