

Info-tech

CLIENT DROUGHT

Top IT firms faced a drought of new clients in FY21

Ayushi Kar Mumbai | Updated on May 10, 2021



Trend reflects in revenue growth too

New client additions have dipped by more than half for the big four Indian IT services companies in financial year 2020-21. TCS, Infosys, Wipro and HCL Tech have reported an addition of 115 new clients at the end of FY21, which is 67 per cent lower than the 347 new clients reported in the previous year.

TCS' new client additions dipped from 95 in FY20 to 15 in FY21.

Infosys, on the other hand, saw an increase in new clientele additions, from 72 in FY20 to 81 in FY21.

Wipro lost 11 clients in FY21, after having gained two new clients at the end of FY20. HCL Tech saw a reduction in new client additions from 179 in FY20 to 30 in FY21, according to data sourced exclusively by *BusinessLine* from CARE Ratings.

Key factors

Vahishta Unwalla, Research Analyst at CARE Ratings Ltd, told *BusinessLine* that the reduction in new clientele occurred because the first half of the FY21 saw demand compression and low technology budgets and the second half was seasonally weak due to furloughs.

Furthermore, the verticals of retail, manufacturing and communication have not fully recovered.

Therefore, these segments reported much lower new client addition. The decline in new clients has had some impact on revenues at an aggregate level. The four companies together have seen revenue growth of just 2 per cent year-on-year (in US dollar terms) in FY21, compared with 7 per cent in FY20.

However, experts opine that strong vendor consolidation, an increase in offshoring of IT services along with broad-based growth across all geographies and verticals and a reduction in operating costs (such as H-1B visa and travel costs) will ensure that the revenue growth outlook is better this year.

"With the pandemic, everyone is working virtually. Earlier there were constraints that work needed to be done from the same country or the same offices. Now that constraint is over," said independent consultant Pareekh Jain.

Furthermore, client additions in the first half of FY21 were mostly concentrated in deals below \$1 million, while from the third quarter onwards, new clients came from higher bands of deals worth \$50-100 million.

New clients			
	Deal size	FY20	FY21
Total for 4 companies*	\$ 1 m	291	95
	\$10 m	31	22
	\$50 m	7	-1
	\$ 100 m	18	-1
Total		347	115

* TCS, Infosys, Wipro and HCL Tech

Digital tech

"This signifies that the need for digitisation of operations grew in clients, which also could result in strong financials for IT giants," Unwalla explained.

A report by financial services company IIFL showed that there has been a reset in client priorities towards digital transformation, wherein existing trends such as automation and AI, hybrid cloud and customer experience have accelerated.

Faisal Kawoosa, founder of market analytics firm techARC, believes that the growth in these new opportunities for the IT sector could have been as high as 20-25 per cent in this past year.

Experts also report strong vendor consolidation with clients consolidating their businesses with a singular IT services provider.

"This would also benefit the Top 4 IT players" Unwalla said.

This consolidation is a trend that commenced long before the pandemic, Kawoosa said.

"For the past two three years, clients have started to recognise IT services that can be done in-house. Furthermore, they recognise the importance of not hiring two/ three vendors and sticking to one vendor who would provide services that are worthwhile," Kawoosa added.

Savings on cost

According to Jain, vendor consolidation would also reduce the costs for IT service providers, thus improving their finances.

Alok Shende, Managing Director of Ascentius Insights, however, believes that the effects on revenue and profit margins for IT companies as a result of reduction of new clients will be seen much later.

"These deals give returns after 2-3 financial quarters, since they involve a long process. Therefore, they can affect the rate of growth of the company going forward," Shende said.

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