

IT & IT Services May Grow 13-15% in FY23 Despite Global Headwinds



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Synopsis

- Information Technology & Information Technology enabled Services (IT/ITeS) industry witnessed a healthy performance in H1FY23 supported by cloud adoption and digital transformation agendas by clientele. There have been strong client additions in H1FY23, wherein, more than one-third of total client additions in the category were of deal size greater than \$10 million. The growth has been broad-based across verticals like BFSI, retail, healthcare and manufacturing.
- “The revenue growth in the IT/ITeS sector is expected to moderate to 13-15% this fiscal on a high base of last fiscal. The growth is supported by the rupee depreciation and continued traction in new client additions in low ticket size (USD 1 to 10 million) clientele. The USD-INR movement would support revenue growth this fiscal, as 60% of the top 5 players’ revenues come from the US market. However, high inflationary and interest rate environment in the client countries globally could curtail discretionary spending by corporates and act as a dampener,” Tanvi Shah, Director, CareEdge Advisory & Research, said.
- Operating profitability is expected to continue to remain range bound in FY23. Optimisation of employee cost owing to the expectation of tapering attrition and slowdown in hiring may further support operating profitability going forward. However, uncertainties arising from consistent high inflation and fears of recession can potentially play a spoilsport with respect to corporations spending on technology and may lead to postponing some of these spends.

Industry Likely to See Moderation in Revenue Growth to 13-15% this Fiscal

IT/ITeS sector plays a key role in creating large-scale employment and generating significant export revenues in India. Increasing digitisation and rise in demand for emerging technologies like 5G, Advanced Data Analytics, Artificial Intelligence, Cloud Computing, Cyber-Security, Robotics and Blockchain provide growth opportunities for Indian IT/ITeS firms.

Indian IT/ITeS sector’s revenues are expected to grow in the range of 13-15% this fiscal, supported by rupee depreciation and continued new client addition in low ticket size clients (USD 1 to 10 million). This is based on an analysis of the Top 5 players accounting for about 60% of the overall IT/ITES sector in India. The sector benefitted from rupee depreciation with an average USD-INR rate of 78.8 in H1FY23 as compared to 73.9 in H1FY22.

The industry witnessed steady traction in mid-size client addition during H1FY23 supported by an increasing focus on digitization and cloud adoption. However, on a sequential basis, client additions remained largely flat. There has been a slowdown in large ticket size client addition (greater than USD 1 Million segment) – an implied higher base effect on account of a sudden post-pandemic ramp-up in FY22.

Also, from a mix perspective, the clientele of \$10 million and above contributed more than one-third of all client additions in the \$1 million and above bucket for H1FY23 — similar to trend witnessed in FY22. The growth has

been broad-based across verticals like BFSI, retail, healthcare and manufacturing globally. The BFSI vertical continues to be the fastest-growing segment and largest revenue contributor accounting for over 30% of the revenues of Top 5 players.

Total Q-o-Q Client Additions in Each Band

Client Categories	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
+1 million	106	119	130	64	85	81
+10 million	45	35	34	30	28	21
+50 million	9	18	10	7	8	10
+100 million	5	8	8	4	3	-5

Note: - `+ million denotes client additions data are of top 5 players (TCS, Infosys, Wipro, HCLTech, Tech Mahindra)

Source: Company reports

Operating Profit to Stay Range-bound amid Rupee's Depreciation and Easing of Attrition

Despite moderation in revenue growth, operating profitability is expected to continue to remain range bound in FY23. The factors like rupee's depreciation and moderation in attrition would support operating profitability of the top 5 players in the IT/ITeS sector. Furthermore, optimisation of employee cost owing to expectation of tapering attrition and slowdown in hiring may further support operating profitability going forward.

While the sector dynamics continue to remain intact, uncertainties arising from high inflationary and recessionary environment, especially in the markets of the US and Europe could potentially play a spoilsport with respect to discretionary IT spending by corporates and remain the key monitorable.

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