

Muted Demand and Prolonged Deal Closures to Hold Back IT Revenue Growth at 3-5% in FY26

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Synopsis

- The IT industry has experienced muted growth and clients across industries continue to delay or defer discretionary projects due to macroeconomic uncertainty and cost pressures.
- The Indian IT sector is expected to witness a flat revenue growth of 0% to 2% in FY26 as compared to the previous year in terms of constant currency revenue growth. This is underpinned by a healthy deal pipeline poised to convert into wins over the near term, ensuring revenue visibility for the next few quarters.
- The sector continues to demonstrate resilience, as IT companies increasingly invest in themselves through focused spending on emerging technologies such as cloud transformation, data analytics, generative AI, cybersecurity, ER&D, ESG initiatives, and machine learning.

Overview of the sector

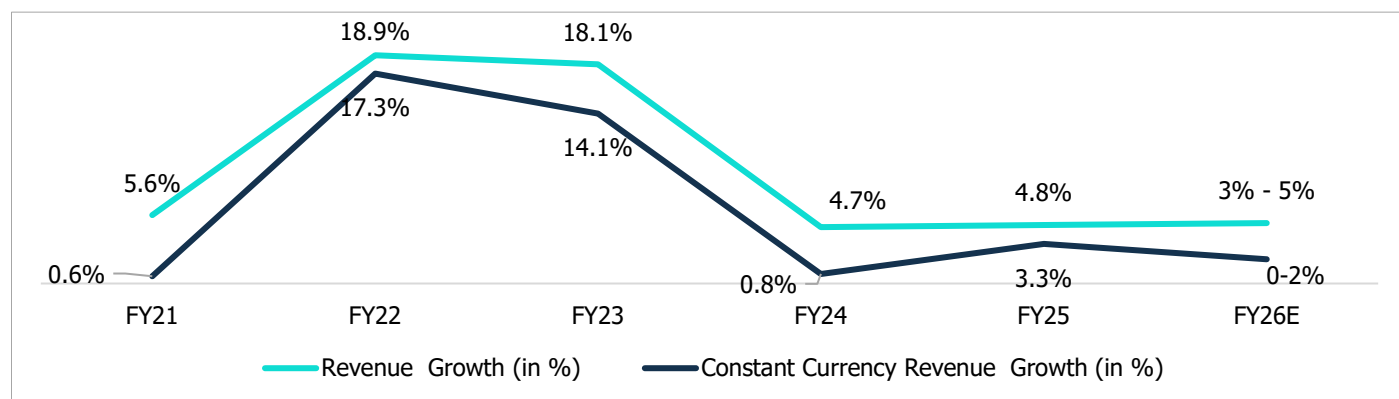
Information Technology and Information Technology Services (IT/ITES) industry plays a key role by contributing to positioning the country as a preferred investment destination for global investors. Increasing digitisation and rise in demand for emerging technologies like 5G, Advanced Data Analytics, Artificial Intelligence, Cloud Computing, Cyber-Security, Robotics and Blockchain provide growth opportunities for Indian IT/ITeS firms.

The uncertainty arising from tariffs and movements in the US market is a significant concern for the IT industry, as a large proportion of its revenues are derived from the US market. The IT-software industry has been re-aligning its offerings to cater to the evolving requirements of its clients with respect to emerging technologies to become more effective in the dynamic business environment. Growth remains muted in key markets, as clients are cautious in spending prioritizing cost optimisation and vendor consolidation.

Performance of IT Industry

IT industry revenue is expected to grow in the range of 3% - 5% y-o-y (0-2% in constant currency terms) in FY26, mainly due to weakness in discretionary spending, especially in the US and Europe, coupled with global tariff and geopolitical pressures.

Chart 1: IT-Industry - Revenue Growth Vs. Constant Currency Revenue Growth



Source: Company Annual Reports & Quarterly Presentations

Note: - Based on aggregate analysis of top 5 listed players (TCS, Infosys, Wipro, HCL Tech, Tech Mahindra)

Good deal wins momentum throughout the year might provide revenue visibility in the near future. Furthermore, the industry continued to witness slower revenue growth of 4.8% in FY25 as well, based on an aggregate analysis of top 5 listed players.

IT Deal Momentum

Post the slowdown in deal momentum in H1FY25, there has been good deal wins in H2FY25.

Table 1: Q-o-Q deal wins

Deal Wins (USD Billion)	3Q 23	4Q 23	1Q 24	2Q 24	3Q 24	4Q 24	1Q 25	2Q 25	3Q 25	4Q 25
	15.2	15.9	15.7	24.8	14.5	21.7	16.1	15.3	16.5	20.3

Source: Company Presentations; Aggregate analysis of top 5 listed players

Currently, IT firms are trying to build investor confidence with their progress in AI, which will be the new tech frontier for the IT industry in India. The digital initiatives of clients continue to provide growth opportunities for IT services players. Generative AI, IoT Machine Learning, and cloud transformation continue to be the fastest growing.

The financial services sector's recovery, coupled with their increased focus on cost-reduction has led to good deal wins for IT players in the H2FY25, which is expected to support revenues in H2FY26.

Client Metrics

For client engagements of more than \$1 million, the top IT players added 42 new clients in FY25 versus 36 new clients to their roster in FY24. However, client additions have been lowered in medium and large ticket size deals of '+10 USD million', '+50 USD million' and '+100 USD million' in FY25, as compared to FY24 and FY23. The top IT firms are focussing on existing clientele for future business and growth opportunities to secure a greater number of deals.

Table 2: Yearly Client Additions in Each Band

Client Categories	FY21	FY22	FY23	FY24	FY25
+1 million	100	419	330	36	42
+10 million	22	144	97	40	-10
+50 million	-2	44	31	5	0
+100 million	-1	25	7	5	-1

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

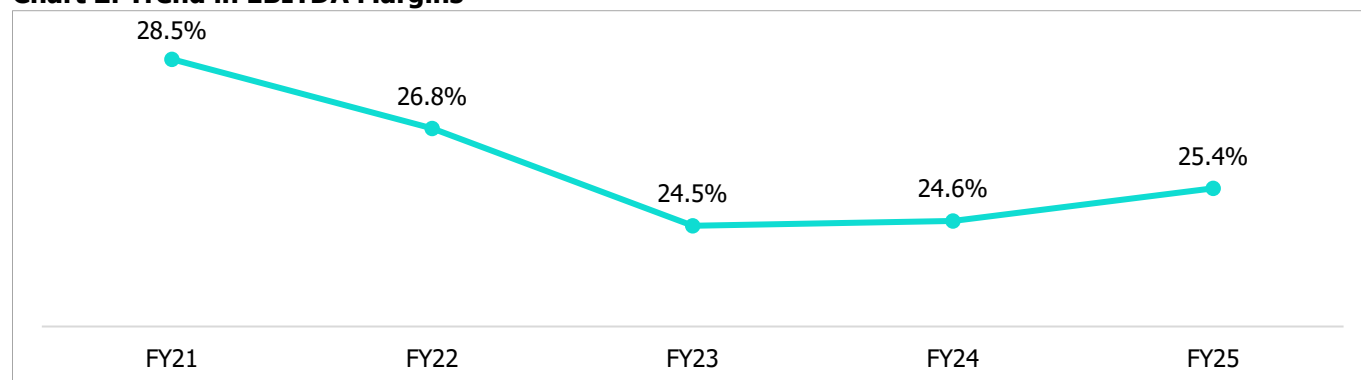
Source: Company presentations

EBITDA margins and attrition

Despite moderation in revenue growth, EBITDA margins improved marginally in FY25

Margin weakness remains a concern due to increase in employee compensation, higher cost of third-party items and increased investments in AI technology R&D. However, the margin appears to have remained steady despite material headwinds in FY24. EBITDA margins are expected to remain range bound in FY26.

Chart 2: Trend in EBITDA Margins



Source: Company Annual Reports & Quarterly Presentations

Note: - Based on aggregate analysis of top 5 listed players (TCS, Infosys, Wipro, HCL Tech, Tech Mahindra)

CareEdge Research View

The Indian IT industry is facing near-term challenges due to the economic slowdown as well as uncertainties around tariffs. Challenges for IT sector include the need for significant investment in AI technologies, potential disruptions to traditional job profiles, and the demand for reskilling the workforce to adapt to AI-driven processes. Companies that embrace AI strategically are likely to thrive, while others may struggle to keep pace. "Indian IT sector is expected to sustain its revenue growth at ~3%-5% in absolute terms in FY26 driven by deal wins which might provide revenue visibility. The operating margins are expected to remain range bound in FY26. However, global uncertainties and US tariffs related developments are key monitorable" Tanvi Shah, Senior Director, CareEdge Analytics and Advisory.

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