ICRA

INDIAN IT SERVICES INDUSTRY

Revenue growth and margins likely to moderate in the near term

JULY 2022

Highlights

Strong YoY growth of 17.6% in INR and 11.0% in USD terms in FY2022 supported by accelerated demand for digital services (Cloud and digital transformation).

Margins declined in FY2022 owing to wage cost inflation as a result of surge in attrition levels and higher subcontracting cost

- ICRA's sample set of 13 IT services companies recorded growth of 18.6% in INR terms and 16.3% in USD terms in Q4 FY2022; and 19.6% in INR terms / 14.1% in USD terms in Q1 FY2023 by some of the companies in the sample set. Overall In FY2022, the sample set witnessed healthy YoY revenue growth of 17.6% in INR terms and 11.0% in USD terms, supported by accelerated demand for digital services.

- In FY2022, the INR depreciated by approximately 0.4%/7.7%/9.8% YoY vis a vis USD/GBP/EURO, which supported INR growth. However while the INR has depreciated against the USD, it has appreciated against the Euro and GBP in Q1 FY2023, thus offsetting the gain in INR terms to some extent.

- The US, Europe and RoW markets grew by 18.8%, 16.1% and 12.2% on a YoY basis, respectively in Q4 FY2022. However, growth in Europe tapered in the past two quarters, owing to some moderation in order inflow because of the ongoing geopolitical issues.

- During H1 CY2022, global traditional outsourcing witnessed ACV of $17.5 billion, up by ~8% on a YoY basis. As a service segment recorded ACV of $29.9 billion, up by ~27% on a YoY basis owing to continued accelerated demand for cloud-based services and digital transformation.

- Revenue growth for ICRA sample set is estimated to moderate to 12-14% in FY2023 due to base effect, macro economic conditions and inflationary headwinds impacting technology investments by corporates in key markets.

- Operating margin for ICRA sample set declined to 23.3% in FY2022 (24.2% in FY2021) owing to considerable increase in employee costs, as the industry grappled with surge in attrition levels. Moreover operating margins are expected to moderate further by 100-150 bps in FY2023 on the back of continued wage cost inflation (due to salary hikes to control attrition as well as expansion of employee base); however remain healthy at ~22%. Attrition levels are likely to start tapering only by the end of the current fiscal.

Agenda

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1 Global Trends in Outsourcing

2 Trends in Quarterly Performance

3 Outlook

4 Peer Comparison

5 Rating Actions

6 Company Section

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Thank You!