ICRA

INDIAN IT SERVICES INDUSTRY

Growth momentum likely to slow down in the near to medium term

JANUARY 2023

Agenda

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1 Global Trends in Outsourcing

2 Trends in Performance

3 Outlook

4 Peer Comparison

5 Rating Actions

Highlights

The Indian IT services industry remains cautious of the macro economic headwinds in key markets of the US and Europe as growth is likely to moderate over the medium term.

Margins to witness some contraction in FY2023 owing to continued wage cost inflation; some improvement likely over the medium term aided by stabilisation of wage costs.

- ICRA’s sample set of 17 IT services companies recorded a growth of 18.4% in INR terms and 9.9% in USD terms in 9M FY2023. ICRA expects revenue growth of 17.5-18.0% in INR terms in FY2023 and 11-13% in INR terms in FY2024*. The industry remains cautious of the macroeconomic headwinds in key markets of the US and Europe, which if they intensify, could moderate growth over the medium term.
- The order book of major IT companies remains strong which will support the growth over the near term. However, evolving macro-economic headwinds may result in lower order inflows going forward. Discretionary IT spending has witnessed slight deferment, while the cost optimization deals continue to generate healthy demand.
- In terms of currency impact, the INR depreciated by approximately 8.9% against USD in 9M FY2023, supporting the INR growth. However, INR appreciated by approximately by 6.5%/0.7% against EURO and GBP over the same period which offset the INR growth to some extent.
- Growth in the BFSI segment has tapered more than other segments in recent quarters, partially attributable to lower lending activity. Moreover, if macroeconomic headwinds persist, the mortgage lending segment and the retail segment are expected to witness relatively higher moderation in growth, compared to other segments.
- Operating margins (OPM) for the sample set are likely to remain healthy (20-22%) led by steady demand for digital services and continued focus on generating operational efficiencies. However, it is expected to moderate by 150-200 basis points in FY2023 due to wage cost inflation and some normalisation of operational overheads. Some improvement expected over the medium term supported by stabilisation of wage costs.
- ICRA’s maintains its Stable outlook for Indian IT services industry led by steady demand outlook and healthy credit profile of industry participants, as marked by earnings stability, strong balance sheets and robust debt protection metrics.

**FY2024 assumption is based on no impact of currency movement*

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Thank You!