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Top 5 Indian IT firms to decelerate this fiscal: Studies

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BENGALURU : US based research DeepDive and Everest Group have forecast that organic constant currency revenue growth for the top five Indian IT firms TCS, Cognizant, Infosys, Wipro and HCL Technologies will drop to 6.9 per cent in the ongoing fiscal, from 7.9 per cent in the preceding year ended March.
The collective growth of the five has dropped for the last seven quarters, from 13.2 per cent in the June 2015 quarter to 6.9 per cent in the March 2017 quarter, underscoring the pressures the companies have been facing.

Rod Bourgeois, head of research at DeepDive Equity Research, said he maintains a cautious outlook on secular growth challenges, though he sees signs of cyclical demand improvement. The $155 billion Indian IT industry is in the midst of structural changes as their customers are migrating to a cloud environment, a game changer for businesses of all sizes that reins in capex spending and collapses time-to-market by a huge measure.

Automation and devops, an offshoot agile software development encompassing iterative and collaborative work, are also accelerating this trend. “So the good news for Indian services stocks in future is that C1Q Jan to March caused Street expectations to taper, and the Indian firms’ guidance outlooks are now more realistic, as they now embed a heavier recognition of the secular challenges we’ve emphasised over the past couple of years while at the same time Indian firms may receive some upcoming help from improved cyclical demand trends,” Bourgeois said.

The top-5 Indian firms have experienced steady margin degradation over the past two years, the report said. The average annual operating margin of the firms dropped from 24.0 per cent in FY15 to 23.0 per cent in FY16 to 22.3 per cent in FY17 in March ending.

On a positive note, Bourgeois said its industry checks across major IT services players reveals general optimism about upcoming cyclical improvement in demand in the BFSI (banking, financial services, and insurance), energy, and healthcare verticals. It expects some improved IT services spending will transpire, particularly for Accenture and the large Indian firms as a group.

IT firms are making rapid strides in building digital capabilities. TCS, for instance said, digital revenue contributed $3 billion, or 17 per cent, to the company's annual revenue of $17.58 billion in the 2016-17 financial year. Infosys CEO Vishal Sikka in a recent interview to TOI said 35 per cent of its workforce is producing 45 per cent of its revenue (newer areas) and that this revenue is growing at more than 20 per cent and the margins are higher than the overall company margins.

"To stem the tide of longer-run growth deceleration, we emphasize that large Indian firms need to make much more progress in building digital consulting capabilities and better vertical-specific expertise. We believe progress on these fronts will require substantially increased costs as well as modifications to their business models," Bourgeois said.