KPMG

IT/ITES Sector – Q1FY24

Subdued quarter: Decelerations in demand continues

August 2023

'Growth slowdown and margins contraction witnessed; strong focus on cost saving deals funding digital transformation; attrition and utilisation to improve'

Themes emerging for the quarter

- **Shift towards cloud** continues to be in growth mode, **focus on efficiency** to increase
- IT techs witnessed abating supply-side pressure, reduction in subcontracting and travel expenses, and falling attrition
- IT budgets are likely to be priorities in the area of **automation** and **cost-efficiency programmes**
- Effect of **macroeconomics uncertainty** compounded by the recent **banking sector crisis** in the developed economies to be more pronounced soon.

Performance overview

Revenue growth (%)

	Large Co.	Mid Co.	Average
Revenue growth	-0.6%	0.2%	-0.2%
Change	-0.3% Q-o-Q basis	-4.1% Q-o-Q basis	-2.0% Q-o-Q basis

EBIT margin (%)

	Large Co.	Mid Co.	Average
EBIT margin	16.8%	13.7%	15.4%
Change	-1.0% Q-o-Q basis	-0.6% Q-o-Q basis	-0.8% Q-o-Q basis

Cash and cash equivalent as a % of revenue

C1	37%	-3.0% Q-o-Q basis
C2	33%	Consistent Q-o-Q basis
C3	32%	1.2% Q-o-Q basis
C4	26%	14% Q-o-Q basis

Large Co.

High attrition rate has now started to abate

16.5% Average: - 3.0% Q-o-Q basis

16.6% Large Co.: -2.5% Q-o-Q basis

16.3% Mid Co.: -3.7% Q-o-Q basis

Other highlights Average

	Cost of service as a % of revenue	Employee benefit cost as a % of revenue	Utilisation rate	Return on equity
Industry Average	65%	58%	84%	23%
Q-o-Q Review	-1.6% Q-o-Q basis	1.0% Q-o-Q basis	2.0% Q-o-Q basis	-0.8% Q-o-Q basis

Deal wins trends

Top five: Total contract value (TCV) **(book-to-bill ratio)**

	TCV
C1	$10.2 (1.4x)
C2	$2.3 (0.5x)
C3	$1.6 (0.5x)
C4	$1.4 (1.3x)
C5	$1.2 (0.4x)

USD Bn

Please note that the sector analysis has been done by taking following into consideration:
*Large Co. consist of top 6 IT companies having annual revenue greater than USD 4.0 Billion
*Mid Co. consisted of 5 mid size IT companies having annual expected revenue less that USD 4.0 Billion

*Average = sum of values / number of values, Book-to-bill ratio: TCV (Booking) Value / Revenue
Source: KPMG in India's analysis 2023 based on quarter 1 results published

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Critical risks

Headwinds on growth from **BFSI, telecom, and hi-tech** verticals

Cautious about flatter **tech budgets** and pricing pressure due to banking crises

Softness in IT hiring due to macro volatility

Delays in deal closures to impact revenues due to liquidity concerns across U.S./EU

Outlook

Cautiously optimistic demand outlook

Focus on improvement in margins through cost optimisation

Cautiousness in terms of headcount growth given the macroeconomic headwinds

Diversification of revenue stream across geographies, along with skilling and cross-skilling and innovation COEs

Leader speak

- **Caution** emerging in the **short-term outlook**, with concern around macroeconomic uncertainty and demand slowdown
- **Attrition** has started showing a sign of **decline** allowing people to build on long-term strategy
- Companies have taken steps to promote the **Tech for good- ESG initiative**. DEI and reduction of carbon footprint to remain the key focus
- **Faster adoption of AI** to improve operation and drive innovation
- **Delays in deal closure** and deal wins are minimised with a stronger emphasis on outcomes and return on investments
- While most spends are being scrutinised closely, **tech spends** are likely to **continue.** However, automation and cost efficiency remain a priority
- The sector remains optimistic about leveraging **inorganic means** to build **new capabilities** in newer geographies.

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