PRESS RELEASE
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Revenue growth for Indian IT services industry to remain tepid at 3-5% in FY2025: ICRA

- ***Notwithstanding some moderation in recent past, operating profit margin (OPM) is expected to remain healthy at 21-22% in FY2025***
- ***Hiring to remain muted in the near term with gradual pick-up until the growth momentum improves***

ICRA forecasts the revenue growth of the Indian IT services industry to improve mildly from 2% in 9M FY2024, but remain modest at 3-5% in FY2025. Despite expectations of tepid revenue growth, ICRA maintains its Stable outlook on the Indian IT services industry, led by a well-established business position, expectations of healthy earnings and cash flow generation, and strong balance sheets of the industry players.

Commenting on the near-term expectations of industry performance, **Mr. Deepak Jotwani, Assistant Vice President & Sector Head, ICRA**, said: *"ICRA expects revenue growth (for its sample set companies)*[1] *in FY2025 to remain tepid at ~3-5% for the second consecutive year, given the persistent macro-economic headwinds in key markets of the US and Europe, resulting in lower discretionary IT spends by corporates. The impact is broad-based across all key sectors serviced by the industry. However, the banking, financial services and insurance (BFSI) and telecom segments have contracted more than the others. Nonetheless, critical spending and cost optimisation deals continue to gain traction, supporting the growth prospects for the Indian IT services companies to some extent. Moreover, despite expectations of muted topline growth, ICRA expects the OPM for the sample set companies to remain healthy at ~21-22% in FY2025, supported by their ability to optimise operational efficiencies as well as stabilisation of wage costs".*

In 9M FY2024, in USD terms, ICRA's sample set companies recorded a modest year-over-year (YoY) growth of ~2.0% in revenues, against 9.2% in FY2023. In terms of geography-wise trends, the growth in the US witnessed a sharp moderation compared to that in Europe. Though the revenue conversion of the orders slowed down, the order book and deal pipeline of most companies remain strong. Moreover, evolving consumer demand dynamics, post the pandemic, have made technology spend far more integral to overall capital allocation of corporates. Therefore, ICRA expects a likely pick-up in the growth momentum once the macroeconomic headwinds subside.

In line with subdued demand prospects, hiring activity in the industry has remained muted over the past five quarters, with negative net addition for the sample set companies because of moderation in demand, coupled with the increase in utilisation of excess capacity added in FY2023. Moreover, there has been a steady decline in the last 12-month (LTM) attrition for ICRA's sample set companies over the last five quarters. "*ICRA expects hiring to remain muted in the near term with gradual pick-up until the growth momentum improves. Moreover, attrition levels are expected to stabilise over the near term, inching closer to the long-term average of 12-13%, as overall slowdown in growth momentum and strong hiring in the previous fiscal has corrected the demand-supply mismatch witnessed earlier,*" **Mr. Jotwani** added.

The Indian IT services industry continues to have a net cash surplus position with strong liquidity owing to high level of operating cash flows and modest capex and working capital requirements. Despite continued substantial

[1] Includes 16 leading IT services companies

dividend pay-outs/share buybacks and inorganic investments, ICRA expects the financial profile of majority of the industry players to remain strong, supported by strong cash flow generation, lower debt levels and strong liquidity.

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