

# A Global Crisis Drives Opportunities@Home

**D**uring the pandemic, there was a lot of demand for offshoring. Since India remains an attractive offshore location, it will not be unusual to see much demand getting diverted to India, this time too," Gartner senior director analyst DD Mishra said, adding that whenever there is a financial crisis globally, offshoring is used to optimise costs. And India, being the world's IT powerhouse, stands to gain.

Outsourcing means hiring an external company or team of developers to work on a software solution, especially when the vendor has a known level of expertise in executing such projects. While Indian IT majors built their entire models around offshoring the outsourced work to cost-effective delivery locations like their home country, the share of offshore revenues and business often fluctuates with global geopolitical concerns.

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**C Vijayakumar**, CEO, HCLTech

Top IT CEOs concur that the current global uncertainty spells opportunity. Executives are of the view that demand will increase through the current fiscal year as enterprises will double down on value realisation with their existing providers with a higher margin for offshoring contracts. Numbers too suggest a growing trend toward offshore. For instance, Infosys has increased its share of onshore revenue mix from 72.4% in FY20, which was before the pandemic hit, to 76% in FY22 before it dipped slightly to 75.4% in FY23. Similarly, Wipro's share increased from 47.1% in FY20 to 59.1% in FY23.

Infosys CFO Nilanjan Roy pointed out that offshoring and utilisation improvements will be the top metrics to improve margins in the ongoing fiscal. "Onsite offshore mix, post-Covid, slightly went askew because, of course, there was some travel which went back. That now strategically can be looked at as we can offshore more work," he said during the company's fourth-quarter earnings call

For the Indian IT industry, the current economic uncertainty gripping the world is worrying. But every crisis is an opportunity: to expand the share of outsourcing as organisations tighten belts and send more work to Indian shores. **Romita Majumdar** captures the trend



Illustration by ANIMISHA

on April 13. Similarly, HCLTech CEO C Vijayakumar said that as customers continue to look for more cost optimisation, they are opening up to more outsourced roles. "Customers are also looking at how they can reduce their operating expenses, which means more efficiency, bringing more automation and trying for more offshoring. So customers are adopting these multiple strategies," said Vijayakumar.

Sudhir Singh, CEO of IT midcap Coforge, also noted a similar emphasis on offshoring components of deals for eking out margins but also as innovation drivers. "Customers are looking for innovation coming from offshore. They're looking for value coming from offshore and not just arbitrage," said Singh. These issues come at a time when the industry

expects sustained margin pressures due to high employee costs and a lack of pricing improvement.

## GLOBETROTTING

As Indian and global IT service providers seek out more cost-effective geographies for offshoring

requirements like Latin America, the Philippines and North Africa, experts said India continues to command a premium due to the nature of talent available.

Everest Group chief executive Peter Bendor-Samuel said that it is hard to compare the Indian IT market to

other offshoring destinations such as those cited above due to the diversity available. He expects the Indian market to capture the lion's share of the cost-savings driven market.

"The Philippines may do well on voice, however we see generative AI as potentially disrupting this market quickly. Eastern Europe looks like it is well positioned to recover the work lost due to the Ukraine war and continue its growth but it is a much smaller market than India and does not look like it will detract meaningfully from the growth prospects of the Indian market," said Bendor-Samuel.

India is still the low-cost and high-skill location for IT and tech services, he added. Former TCS CEO Rajesh Gopinathan told ET that the demand for offshoring services will draw companies to the country.

"India as a destination for work will continue to remain very attractive. And I think the leverage will keep on going up," he said.

In fact, during its January-March Index call, ISG observed that providers are laser-focused on optimising their delivery pyramids and the mix of onshore-offshore delivery which lead to more offshore work. Credit rating agency S&P Global Ratings expects overall IT services revenue growth to slow down to about 5% in FY24 from double-digit growth earlier. This broadly represents a slowdown across segments due to discretionary IT spending cuts. In fact, the firm believes that Indian IT majors have more to offer beyond just traditional outsourcing types of deals.

"We believe solid client relationships, high contract renewal rates and healthy recurring revenue streams—including traditional outsourcing services—provide good revenue visibility for IT players and limit downside," said S&P Global Ratings analyst Spencer Ng. "Besides, leading Indian IT majors have evolved over the past few years from being traditional outsourced service providers towards offering more complex digital services." However, current

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**Sudhir Singh**, CEO, Coforge

trends suggest that the value proposition is shifting to innovation over labour arbitrage for global customers.

As managed services demand soars and companies are more open to offshoring during tougher market conditions, the current trends lean toward "rightshoring" more than just traditional forms of offshoring, said Namratha Dharshan, chief business leader, ISG Research.

Rightshoring is the process of strategically selecting delivery locations that match the client's time zone with

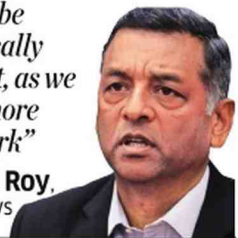
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**Nilanjan Roy**, CFO, Infosys



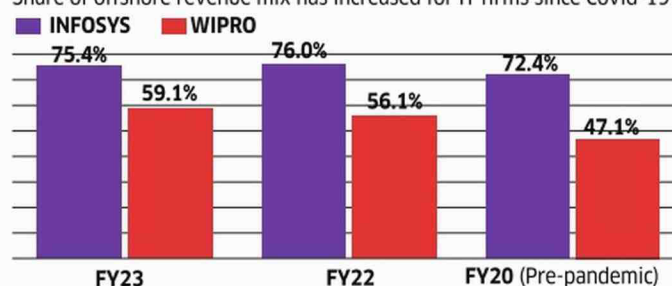
geographical proximity to onsite delivery teams. In addition, rightshoring is not just about location but about the outsourcing decision that provides most cost optimisation and other business benefits.

This trend also ties in with a large number of delivery and innovation centres that Indian IT providers, both large caps and midcaps alike, have been setting up in regions such as eastern Europe, Canada, Mexico and North Africa among others since the pandemic. Yet, India's technology talent pool continues to be a differentiator in this space.

"From a talent perspective, the way some of the service providers are investing... In fact, not just Indian service providers, even the global service providers are focused on investing in universities, and tier II and III cities in bringing up innovation centres and Centres of Excellence and grooming that talent in India," said Dharshan. There are few offshore locations that give the IT outsourcing industry the level of institutional support seen in India, she added.

## THE REVENUE MIX

Share of offshore revenue mix has increased for IT firms since Covid-19



Source: Companies. TCS and HCLTech do not disclose their offshore revenue mix while Tech Mahindra has changed its reporting metric, which is not comparable for the given period

## WHY INDIA IS RIGHTSHORING CHOICE

- Beyond traditional outsourcing, IT enterprise clients are looking at India as a major co-innovation hub
- Markets like Latin America, Eastern Europe and Philippines are increasingly becoming popular offshoring destinations but the scale of Indian talent makes it a big draw
- As managed services demand soars and

companies are more open to offshoring during tougher market conditions. The current trends lean toward "rightshoring" more than just traditional forms of offshoring

- Analysts expect the Indian market to capture the lion's share of the cost-savings driven market. India remains the low-cost and high-skill destination for IT & tech services, say experts