Digital business takes centre stage for India's IT services companies

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Major Indian information technology (IT) services companies reported strong growth from digital business in the June quarter, despite the covid-19 impact and global challenges. This helped maintain buoyancy as clients transitioned to work-from-home and demand for cloud, collaboration and cybersecurity-related technologies shot up.

Typically, practices that cover emerging technologies like cloud, mobility, analytics, internet of things, and cybersecurity are clubbed under the digital business. Until recently, most IT services companies separately reported their digital revenues but the trend is changing as digital has increasingly become part of their mainstream offerings.

"Digital is definitely mainstream for IT service providers. Comparing digital revenues across providers can be difficult because different providers use different definitions for digital revenue," said Dean Blackmore, senior director analyst, Gartner. "We estimate that in 2019, non-digital IT services revenue was still around 52% of total IT spending. However, by 2023 that will drop to around 31%," Blackmore said.

Digital has become so "mainstream" for Bengaluru-based Wipro, that they have done away with a separate classification for their digital business from the June quarter onwards. "We believe digital has now become a mainstream capability for us and also it has reached a scale where you don't need to separately call it out as it has become very pervasive for us," said Bhanumurthy B.M., chief operating officer, Wipro.

TCS stopped reporting its digital revenues from Q3 FY20 onwards, as the lines between digital and core offerings were getting blurred.   MINT

India's largest software exporter Tata Consultancy Services (TCS) Ltd had stopped reporting its digital revenues from Q3 FY20 onwards, as the lines between digital and core offerings were getting blurred.

CIOs aims to optimize costs with accelerated adoption of public and hybrid cloud model, which is driving growth in cloud revenues this quarter, said Rajesh Gopinathan, chief executive officer (CEO) and managing director (MD), TCS.

"Our pipeline from a digital infrastructure and cloud perspective has actually been the highest in the last many quarters. A lot of the large deals that we see is coming from an accelerated adoption of the core infrastructure and compute fabric transformation which is a key enabler for switching to this mode at a large scale basis," Gopinathan said in a post-earnings call recently.

Infosys Ltd, which continues to note their digital revenues separately, saw its digital revenue grow 25.5% y-o-y in constant currency to $1.38 billion for the first quarter-ended June, to contribute 44.5% to the total revenue. Earlier this month, Infosys signed a large deal with US investment management firm Vanguard to drive digital transformation of their record-keeping services onto a cloud business platform, which Infosys believes is an indication of strong growth momentum in digital.

"The whole crisis has accelerated the digital thinking across most large enterprises. We see a lot of demand in areas of cloud, workplace transformation, automation, and cost-efficiency," Salil Parekh, CEO and MD, Infosys, said in the Q1 earnings call.

HCL Technologies along with its partners is helping customers embrace digital transformation to emerge stronger in a post-covid world. "I am confident that, with decisive action leveraging digital momentum and sustainable business practices, we will together emerge as stronger entities," said chief strategy officer and MD Shiv Nadar.

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Some analysts, however, believe sharing digital revenues separately provided more clarity although some change in reporting structure is inevitable.

"Traditional services like application development and maintenance (ADM), testing and infrastructure support have been under severe pressure for long. So, the focus on digital will continue and especially areas like cloud and customer experience will become more and more mainstream in the coming days," said Harit Shah, a Mumbai-based IT analyst.