After a mixed run in 2022, IT may face macro headwinds

CLOUDY OUTLOOK. Slowdown in Western economies portends slower growth for industry

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BONE OF CONTENTION. Moonlighting — taking up another job in addition to the primary job — became the much talked about worry for the industry. AFP

The Information Technology (IT) sector comprising software, services, business process management (BPM) and hardware is a $227-billion behemoth accounting for 8 per cent of the GDP and employs more than 5 million people directly in white-collar jobs and several multiples of that indirectly.

The IT sector started the year on a high note as the pandemic turned into a boon for the industry. As the pandemic-induced need for digital transformation fuelled global tech spending, IT majors TCS, Infosys and Wipro, among others, posted double-digit growth numbers. Most companies even exceeded street expectations.

While the demand remained robust, high attrition rates deprived the industry of a perfect home run in the first two quarters of the year. IT service providers recorded the highest attrition rate in the last three years, which hurt the margins as hiring and training costs spiked.

However, firms made high employee additions inclusive of freshers, during the period. As demand for digital talent trumped supply and talent was being picked up by both global companies and start-ups at the same time, attrition became a serious concern.

The globally-integrated IT outsourcing industry was exposed to some of the vagaries of international events like that of the Russia-Ukraine conflict that unfolded early this year.

2022 also saw IT firms building their capabilities to further explore newer areas like metaverse and cybersecurity.

Mostly the top-tier firms mulled initiatives and invented use cases to build services in the metaverse. Infosys notably established a metaverse foundry to ease and fast-track enterprises' exploration of the metaverse. The interest in cybersecurity solutions also spiked as cyber attacks increased due to digital transformation.

MARGINS TAKE A DIVE

Although the year started off strong, it saw a moderation right after, with operating margins remaining under pressure due to attrition and supply-side constraints. Macro issues like rising inflation and unsteady markets also contributed to the worry. The stock value of the IT firms which had been on the upswing during the pandemic and subsequent lockdowns, too, tapered down. Top-tier firms even reduced the variable pay incentives to some of their employees as their margins took a dive.

On the talent management front, moonlighting — taking up another job in addition to the primary job — became the much talked about worry for the industry. What started with Wipro's Chairman Rishad Premji terming the practice as "cheating" in a tweet, went to be widely discussed and most companies and industry leaders disapproving of it. Some companies like Wipro and Infosys even went on to fire employees they found moonlighting. However, the industry did try to address the challenges emanating from this growing trend and the reasons behind it. In an effort towards the same, IT major Infosys, for instance, allowed employees to take up gig work, subject to approvals.

STAFF ASKED TO RETURN

Towards the end of the year, as talent wars slowed down, attrition saw moderation and so did the crazy hiring numbers. The last quarter saw net employee addition come down for all the major IT firms. Also, companies began to insist that a substantial number of employees return to the old structure of working from a centralised facility in contrast to the last two years when they were allowed to deliver from wherever they were based.

Headwinds bought on by the slowdown in the western economies indicate a slower growth momentum for the industry. Industry players are seeing softness in demand in specific verticals and geographies. They are also seeing the nature of deals changing as businesses are seeking cost-takeout deals. However, at large, the industry remains cautiously optimistic for the quarters to come.

"Going forward, for H2, we can expect the revenue growth momentum stabilising. For FY23, revenue growth will be the in the range of 8-12 per cent in constant currency terms. On the margin side, cost pressures are likely to reduce, around 1-2 per cent margin expansion can be expected in the next two quarters," Omkar Tanksale, Research Analyst, Axis Securities, told *businessline*.

Analysts in the recent past have said the sector may not experience the kind of effect expected by the market as the industry is largely resilient even as uncertainties in the macro environment exist. At least in the near future, the demand is expected to remain robust.