

Mid-sized IT firms benefit from focus on specific sectors, flexibility

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Mid-sized IT services firms are likely to gain from a sharpened focus on delivering tailored solutions to specific industries instead of catering to a wide spectrum of clients, according to industry experts.

L&T Infotech Ltd (LTI), for instance, focuses on the banking, financial services and insurance (BFSI) vertical that accounts for nearly half of the company's revenue. The BFSI vertical grew nearly 40% in the June quarter from a year earlier. LTI had recently acquired Syncordis and Nielsen + Part-

ner to bolster its capabilities in this space.

"These acquisitions are enabling us to win large banking transformation engagements like the recent win with one of the world's largest Islamic banks," said Sanjay Jalona, CEO & MD, LTI. "Our large deal pipeline looks healthy, and we are confident about the next phase of our growth."

Persistent Systems Ltd is also considering acquisitions to add capabilities across service lines such as cloud, data and security, and verticals such as BFSI and healthcare. The management has indicated that \$10-50 million size deals remain a sweet spot, though it is seeing a gradual

increase in the size of deals.

According to Emkay Research, the company is on track to achieve its goal of \$1 billion revenue run rate over the next few years.

"Our acquisitions would be tuck-ins either to make us smarter, sharper, and in some other service lines that we have or to go deeper in an industry vertical, whether it is BFSI or healthcare or in a geography like Europe," said Sandeep Kalra, CEO, Persistent Systems.

In many cases, mid-sized IT firms also offer more flexibility and cost-effectiveness compared to larger peers. "Mid-sized firms are competitive in terms of cost as well as opera-



L&T Infotech focuses on the banking, financial services and insurance vertical, which accounts for nearly half of its revenue.

tional efficiency. They bring unique solutions that address the requirements of customers," said D.D. Mishra, senior director analyst, Gartner.

Many mid-sized firms have also outperformed larger peers both in terms of revenue growth and stock price. LTI's dollar revenues grew 20.4% in

the June quarter from a year earlier and the share price has surged about 136% in the past year. Persistent's dollar revenue grew 27.3% from a year earlier, while the scrip has risen over 180% in one year. In comparison, larger peers posted relatively muted revenue growth. TCS's share price rose about 58%, while Infosys was up 70% in the past year.

Niche engineering-focused mid-sized firms like Larsen & Toubro Technology Services Ltd (LTTS) and Tata Elxsi Ltd

have benefited from the acceleration of digitalization within engineering research and development (ER&D).

GAINING AN EDGE

MID-SIZED IT firms are competitive in terms of cost as well as operational efficiency: analysts

THE shift from traditional to digital has led to relatively smaller players playing crucial roles

"Growth levers for ER&D services firms consist of higher outsourcing and market share gains by Indian and European ER&D players," Motilal Oswal said in a report. Both LTTS and Tata Elxsi have indicated a robust deal pipeline on the back of upbeat demand.

Analysts believe that the shift from traditional to digital requirements by clients has

led to relatively smaller players playing crucial roles.

Mishra pointed out that no single provider can meet all the requirements, hence mid-sized players often complement the needs with their unique capabilities. "Gartner has seen considerable traction for mid-sized providers in the last three to four years, and it continues to grow," he added.

He believes that the era of large monolithic deals is over.

"There is a shift towards selective sourcing to some best-of-breed providers, which is becoming more relevant as it has distinct advantages compared to single-source total outsourcing contracts," he added.