

# Demand for digital tech to help IT firms grow despite supply-side woes

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IT services companies such as Tata Consultancy Services Ltd (TCS), Infosys Ltd, HCL Technologies Ltd and Wipro Ltd are expected to sustain their revenue growth momentum for the next few quarters on the back of continued demand for digital technologies such as cloud, data analytics, artificial intelligence, internet of things, 5G and cybersecurity.

Tier-1 services firms posted a 2.6-6.9% sequential dollar revenue growth in the September quarter, while tier-2 companies reported a 6.1-12.8% sequential growth

during the quarter.

Analysts at Emkay Research expect the revenue momentum seen in the first half of this financial year to continue in the second half led by secular broad-based demand trends, healthy deal wins and continued ramp-up of large deals.

To be sure, the total contract value (TCV) of deal wins moderated in the September quarter as deal tenures have become shorter due to clients' urgency to execute digital transformation projects in a short span instead of signing large, longer-tenure deals that follow lengthy due diligence and legal process.

TCS signed deals worth \$7.6 billion in Q2FY22, lower than \$8.1 billion in Q1. Infosys' deal



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intake stood at \$2.2 billion in Q2 against \$2.6 billion in Q1, and Wipro's large deal wins moderated to \$580 million from \$715 million in Q1. HCL was the only exception whose

TCV for the second quarter rose to \$2.2 billion against \$1.66 billion in Q1.

Seasonal factors such as lower working days and furloughs will weigh on Q3

sequential growth trajectory.

Infosys raised its revenue growth guidance for FY22 to 16.5-17.5% in constant currency from the earlier guidance of 14-16%, while HCL Tech retained its double-digit growth guidance for FY22. Wipro guided for 2-4% sequential growth in Q3 and remained confident of delivering double-digit organic revenue growth in FY22.

"As we finish Q3 and start to get into Q4, we will start to have a good idea of what the following financial year will look like. My own sense is the demand that we have is quite comprehensive and that will certainly continue to help us as long as we build out the new capabilities well and be part of

the clients' digital and cloud journey," Salil Parekh, CEO & MD, Infosys, told analysts during the Q2 earnings call.

The deal pipeline in the coming quarters appears robust across the industry, driven by an uptick in digital transformation, cloud adoption and automation deals, Emkay Research said in a note.

That said, the industry is expected to face supply-side challenges in the short term due to high attrition and shortage of skilled manpower.

Attrition rates in Q2, for instance, were at record highs. The attrition rate at Infosys rose to 20.1% in the September

## STRONG FOOTING

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quarter from 13.9% in the preceding quarter, while Wipro's attrition rate rose to 20.5% from 15.5% during the same period.

The attrition rate of TCS, though the lowest among its peers, increased to 11.9% in the September quarter from 8.6% in the preceding quarter.

Wipro chief executive Thierry Delaporte said during the last earnings call that given the demand environment, the

prevailing high levels of attrition are expected to continue for at least the next two to three quarters.

Industry watchers expect the supply-side challenges to continue for the next few quarters despite some balancing off.

"The high attrition we saw in Q2 will ease off a little, but even in 2022, the demand for niche skills will continue to outstrip supply... in some ways, it's not a bad thing because if there is demand for talent, it means the industry is on a growth path. With high growth, you may have talent attrition, so one will have to find the right mix there," said Sangeeta Gupta, chief strategy officer, Nasscom.