

Indian IT sector sees new growth drivers in mid-tier firms

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The information technology (IT) services sector is seeing emerging growth leaders among mid-size companies, such as L&T Infotech, Hexaware Technologies and Cyient.

These, say analysts, are among those reporting higher growth than larger peers. Large companies such as Tata Consultancy Services (TCS), Infosys, Wipro and HCL have seen mid to high single-digit growth in the past few quarters; these mid-tier IT service providers have seen double-digit growth.

Buoyed by this strong growth in the first two quarters of this financial year, Hexaware has raised its dollar revenue growth expectation to 14-15 per cent for 2017, from the earlier 10-12 per cent. L&T Infotech, largest in size among the mid-tiers with \$1.1 billion revenue, reported steady growth in the September

EMERGING DARK HORSES

Mid-tier firms Q2

Company	Revenue	YoY in %	QoQ in %	Profit	YoY in %	QoQ in %	Revenue growth in \$ terms QoQ in %
Hexaware*	993	9.8	1.0	142	24.4	16.2	0.9
L&T Infotech	1,750	9.3	4.8	273	17.3	2.1	4.4
Mindtree	1,391	6.0	2.7	125	31.5	2.5	3.0

*Q3 for Hexaware

quarter at \$270.6 million, on higher on-shore and off-shore volume.

Infosys has revised downward its growth forecast for 2017-18 by 200 basis points; Wipro has maintained a cautious quarterly forecast. Industry lobby group Nasscom estimates the software export sector to grow by seven to eight per cent this year, another year of only single-digit rise.

"Among the mid-tier IT firms, Hexaware, L&T Infotech, Cyient

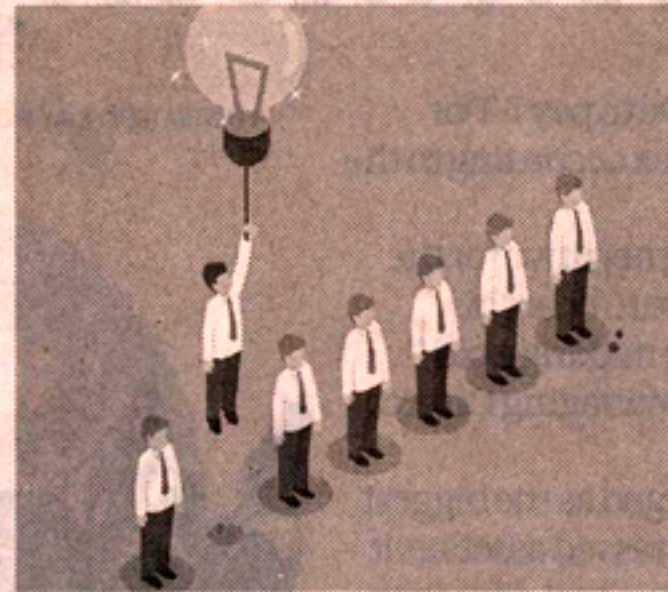
and a few others are seeing better growth than large companies.

These are seeing higher growth through focused digital strategies and deal wins in the digital technology front and that growth is reflecting on the stock with a premium," said Madhu Babu, analyst at brokerage Prabhudas Lilladher.

Babu recently wrote: "We believe Hexaware revenue is poised to grow at a much faster pace, compared to larger peers

(Infosys; TCS, poised for seven-eight per cent dollar revenue growth for FY18) in 2017."

The decline in legacy software services seems to have had a mixed impact on large and mid-tier companies. While there has been a sharp fall in traditional works such as software maintenance, growth in digital technology services has not been adequate to offset this. Mid-tier companies appear to have adopted more focused strategy to



Top firms Q2

Company	Revenue	YoY in %	QoQ in %	Profit	YoY in %	QoQ in %	Revenue growth in \$ terms QoQ in %
Infosys	17,567	1.5	2.9	3,726	3.4	7.0	2.9
TCS	30,541	3.2	4.3	6,446	8.0	-2.1	3.2
Wipro	13,420	2.5	1.5	2,192	6.0	5.5	2.1
HCL Tech	12,434	7.9	2.3	2,188	8.6	0.8	2.3
Tech Mahindra	7,607	6.1	3.7	836	29.7	4.7	3.6

win more digital deals.

"These mid-tier firms have developed depth in some of the digital areas such as robotic process automation and the internet of things. Initially, they were open to taking up smaller projects. A lot of them took \$200,000 projects and built capabilities in digital technology areas. As a result, they're now getting deals based on expertise. The large players remained primarily focused on

large deals. That clearly explains the diversity in growth and revenue mix," said Malay Shah, senior director at professional services entity Alvarez & Marsal India.

Analysts say Hexaware's strategy, for instance, is to "use automation to win new deals and gain share from legacy vendors". "We believe the strategy is gaining momentum. This is visible in the strong growth in IMS (information management systems) and BPO

(business process outsourcing) service lines. We also note that IMS and BPO service lines have grown at 10 per cent and 6.4 per cent on a compounded quarterly growth rate, respectively, over the past seven quarters. Its 'Shrink IT' appears to be playing well, as the company has seen steady new deals wins in IMS and BPO," added Babu of Prabhudas Lilladher.

At the same time, other mid-size firms such as Mindtree and KPIT Technologies have seen the impact of slow industry growth on their margins. What has added to Mindtree's sluggish numbers, says Babu, is lack of substantial contribution from both its recent buys, Bluefin Solutions and Magnet360.

KPIT's strong traditional focus, on the other hand, impacted its growth rate, said Shah. "KPIT had a very large ERP (enterprise resource planning) focus and the transition to cloud and software as a service has not been smooth."