IT services sector may register growth up to 9% in FY20

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The information technology services sector is estimated to clock a flat growth of up to 9 per cent in the fiscal year 2019-20, a report said Monday.

The growth will be at par with the 9.1 per cent growth achieved by the sector in FY19, according to industry lobby Nasscom.

The grouping has discontinued a 25-year-old practice of coming out with growth estimates citing the changes in the landscape which makes the job harder.

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"The earlier small-scale proof of concept digital projects has started evolving into enterprise level larger implementations coupled with improvement in discretionary spend supporting future growth," its vice-president Gaurav Jain said.

The traditional mainstay of banking and financial services will experience some weakness on low interest rates, focus on cost optimisation and managing discretionary spending, it said, adding that insurance companies are supporting the growth.

Firming oil prices will lead to some discretionary spends by energy firms on digital spends and give the IT firms some good news, while retail is also showing improvement in the first nine months of FY19.

From a profitability perspective, the rating agency said margins were flattish in the third quarter of FY19 on pricing pressure, increased regulatory costs, wage inflation and higher onshore hiring and sub-contracting cost necessitated by visa curbs.

However, the overall margins are estimated to decline to 20.8 per cent in FY20 for its 19 sample companies from 22.5 per cent in FY18. Indian companies have started to ramp-up on-shore hiring in its largest market of US on visa issuance norms being tightened by restricting the entry-level programmers coupled with increasing compliance and evidence requirements adding to cost pressures, it said.

There will be higher consolidation in the industry, especially among the small and mid-size players, owing to margin pressures in the next decade, it said.

From a credit outlook perspective, the rating agency said it expects some stability on the ability of the sector to sustain free cash flows.