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The Industry Analysis of IT sector of India

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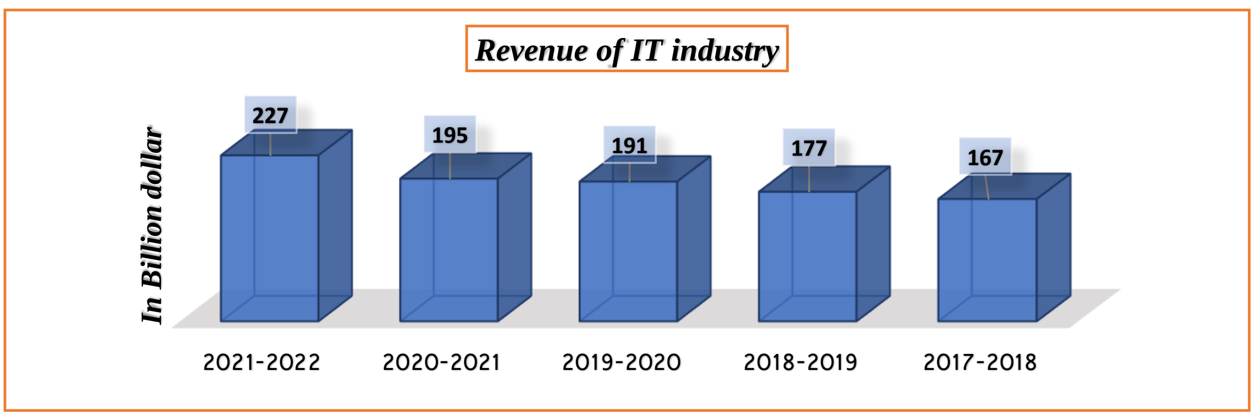
INDUSTRY OVERVIEW:

For both global and Indian end-user enterprises, Technology was the panacea for both global and Indian end-user organizations, allowing them to not only keep the lights on but also pivot their business models to online mode, adapt products & services to emerging market forces and customer needs, and enable collaboration in a distributed work model. According to NASSCOM, India has a collaborative and diversified tech ecosystem:

- 6000+ Indian tech service companies across IT-BPM, ER&D
- 2000+ Product company
- 25000+ tech startups
- 2000+ GCCs/ MNCs

FY2022, therefore has been a spectacular year of India's technology industry; it recorded a 15.5% growth (highest ever) to reach $227 Bn in revenue. It is the highest ever growth since 2011. This growth is also important because it has been achieved at a time when the world is recovering from pandemic, inflation, security challenges, Lockdown in China, and Ukraine-Russia war.



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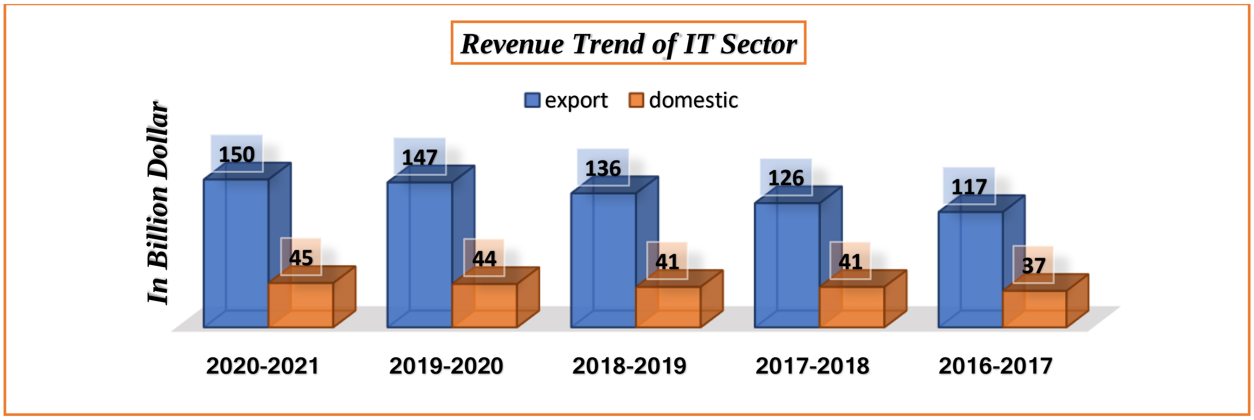
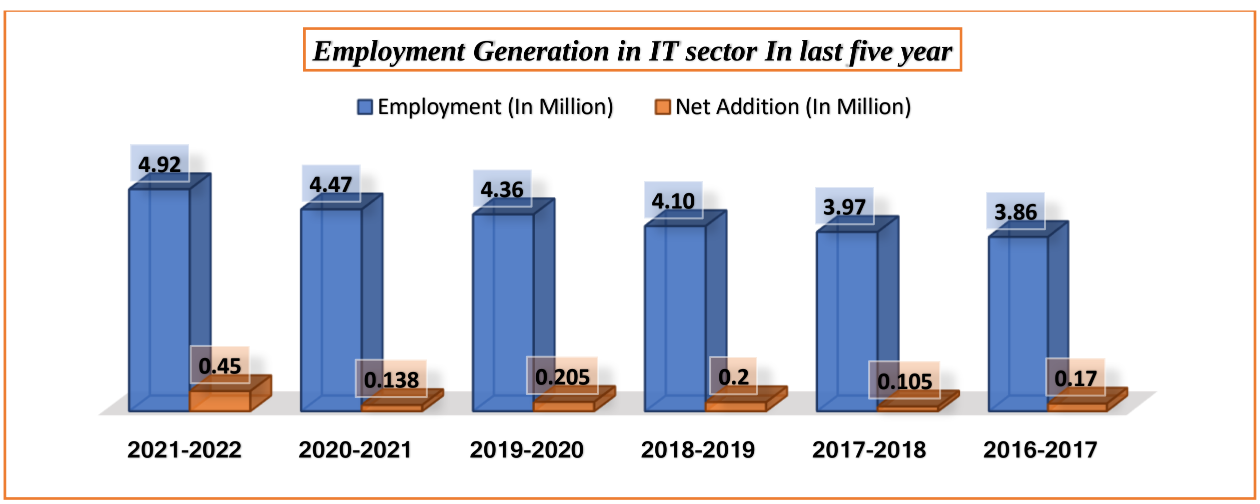


SOURCE: [HTTPS://WWW.MEITY.GOV.IN/REVENUE-TREND](https://www.meity.gov.in/revenue-trend)

The revenue trend of the graph shows that there has been an increase of 28 percent in revenue generated by IT sector in last five year from export whereas there is not much significant increase in revenue generated domestically. Perhaps in coming years in India also there is going to be high demand of IT services because India is moving towards digitization. Recently we have seen India has achieved 100 unicorn startup target and it continues to be the 3rd largest start-up hub in the world with over 25,000+ tech start-ups. India was ranked 46th in the Global Innovation Index because of the strong concentration on IP creation. The tech industry filed over 138K tech patents in India during 2015-2021 and increased its investments in R&D by nearly 1.5X across the spectrum. The Indian tech industry has risen to the top of the pack when it comes to successfully transitioning to hybrid work patterns. With over 70% of tech organizations looking at adopting hybrid work models, industry has set global standards on Virtual screening, recruitment, onboarding, and training making it a business-as-usual norm. It shows that Indian IT sector has high potential to grow at a faster pace in coming years.

In last couple of years IT sector has created a huge employment opportunity for the people and as we can see from the graph itself there has been 27.41% increase in employment from 2016-17 to 2021-22.



SOURCE: [HTTPS://WWW.MEITY.GOV.IN/REVENUETREND](https://www.meity.gov.in/revenuetrend)

According to the NASSCOM, India has emerged as a global hub for digital talent with over 5 million tech workforces. The industry recorded nearly 10% estimated growth in direct employee pool in FY2022E with a highest-ever net addition of approximately 450,000 to its employee base. With 1 out of 3 employees already digitally skilled, the digital tech talent pool is at 1.6 million, growing at a CAGR of 25%. With massive focus on reskilling and upskilling, the Indian tech industry reskilled approximately 280k employees in FY2022. BFSI is a key business vertical for the IT & BPM industry. A major share of revenue of IT majors comes from the BFSI business vertical. Disruptive technologies such as cloud computing, social media and data analytics are offering new avenues of growth across verticals for IT companies. Key players are focusing on differentiated cloud products/platforms to avail a competitive advantage over other industry players. The demand for cloud technology professionals is expected to reach 2 million by 2025.

Historically, the United States has been the largest purchaser of Indian IT industry. Non-US-UK countries accounted for just 21% of the total Indian IT & BPM export during FY19. US and UK are the leading customer markets and if there is decrease in demand of IT service from U.S.A then it impacts the overall IT industry of India. Recently we have seen in U.S. that **Real gross domestic product** (GDP) decreased at an annual rate of 1.4 percent in the first quarter of 2022 and there is high inflation because of which country can go in recession. The dependency on US for business shows can severely impact Indian IT sector.

SWOT Analyses:

Strength:

- Cloud, Cybersecurity, Data and AI will be the top tech priority area for industry
- Cost Advantage
- Breadth of service offering
- High Quality and cost-effective skilled work force

Weakness:

- High dependence on U.S for IT export
- Domestic Consumption for IT service is low
- Huge dependence on BFSI

Opportunity

- Increase in Digital economy and Artificial intelligence in India
- Cloud adoption continues to accelerate, 3X rise in cyber risks driving increased cyber security deals
- More digitally skilled workers by 2025
- Government support towards IT industry by bringing PLI scheme

Threat:

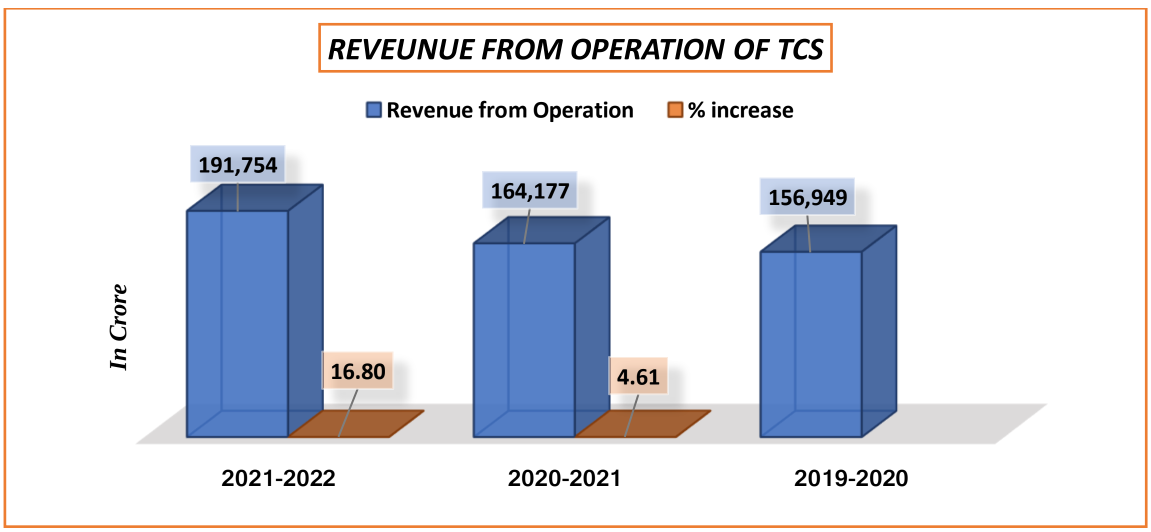
- Headwinds outlined includes the unknowns on geopolitics, macro-economic challenges, supply chain disruption, pandemic.
- Manpower shortage
- Rise in Attrition rate
- Increase competition as many IT tech startup are coming in India

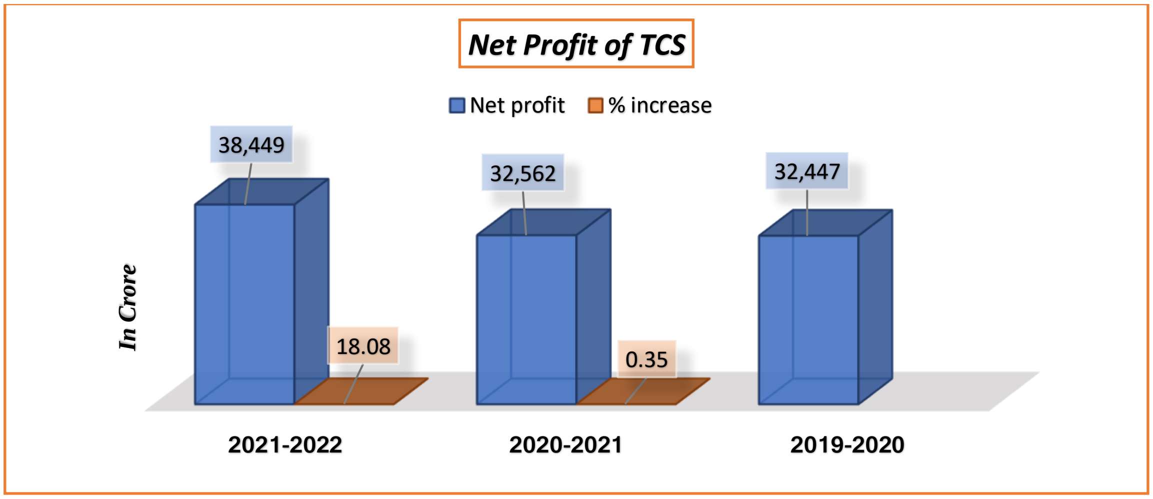
Company Overview:

Large Cap Company

TCS:

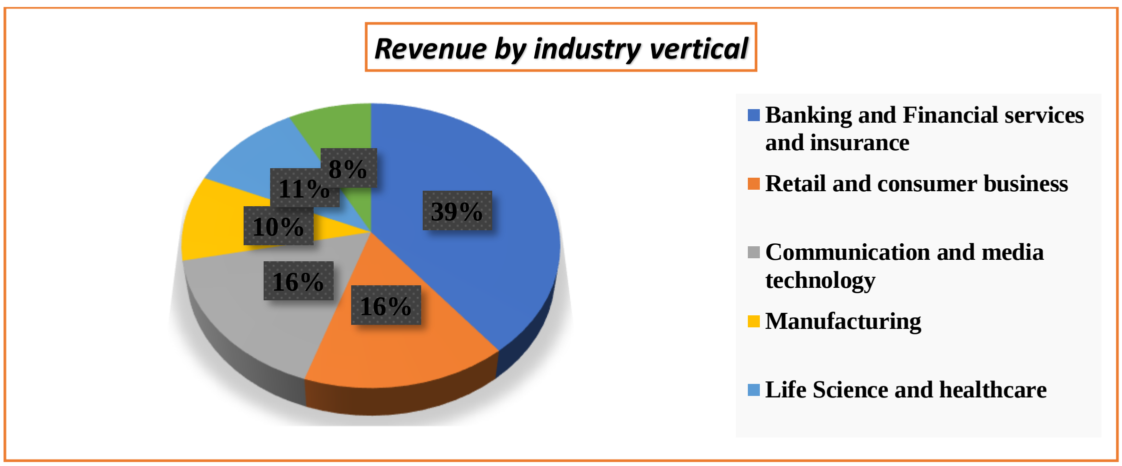
- The company outstanding performance this year, was due to the strong demand for the services. The cloud adoption trends strengthened more in FY 2022, with clients of the company adopting more cloud-based services. The company has shown 18 percent increase in revenue in FY22 compared to FY21. The profitability continues to be industry-leading with operating margin at 25.3 percent and net margin at 20 percent.





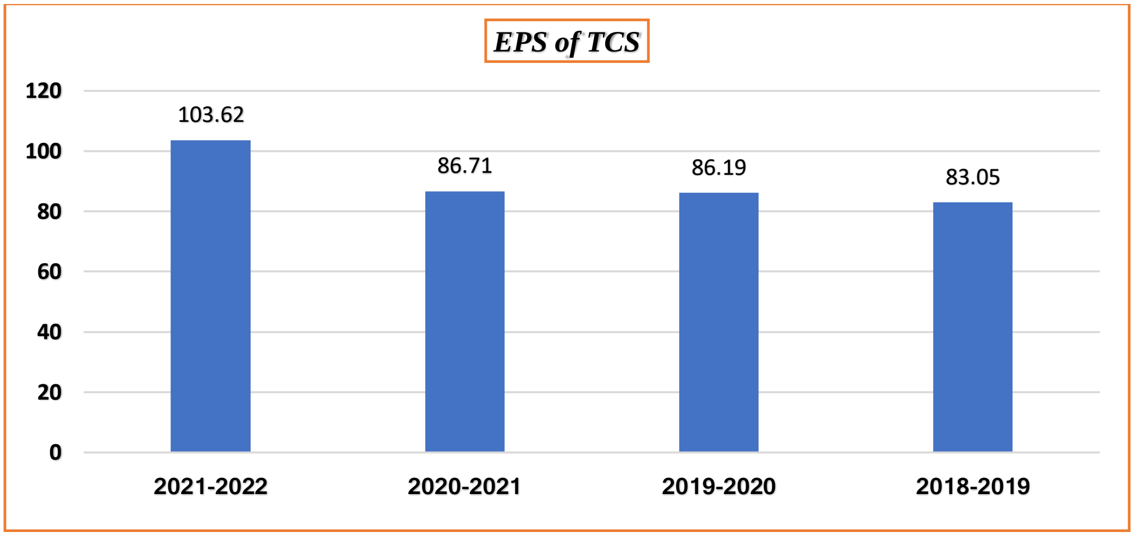
Source: Annual Report

- In FY 2022, IT services attrition was 17.4% on an LTM basis, the lowest among its peers. The Companies major revenue comes from banking and financial services and insurances



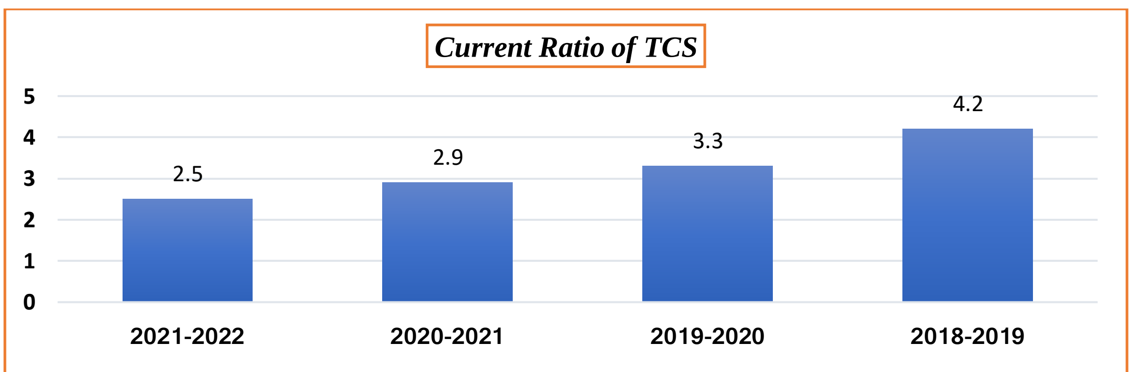
Source: Annual Report

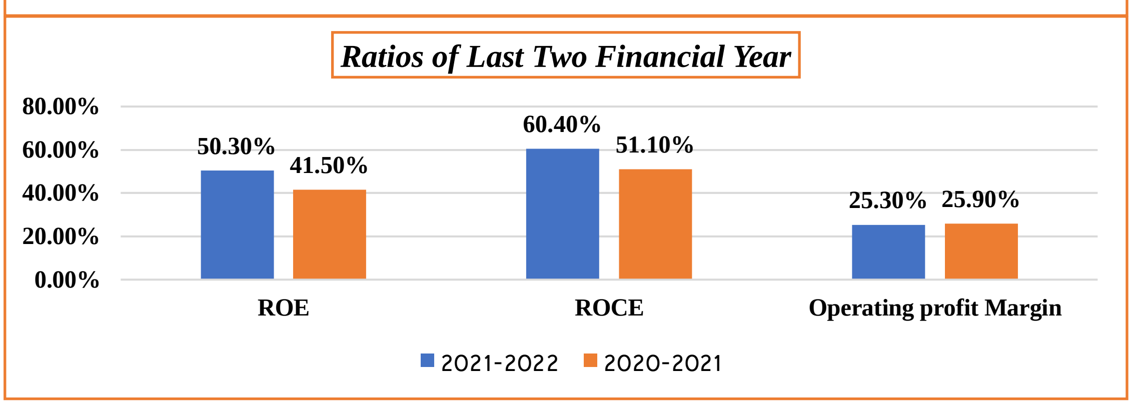
- Earning per share of the company has increased to 103.62 in FY22 from 86.71 in FY21. This has happened because companies net profit has increased.



Source: Annual Report

- The Current ratio of TCS has gone down from 4.2 in 2018-2019 to 2.5 in 2021-2022 and this has happened because current liabilities of the company has increased but it has not impacted the debt-to-equity ratio which has been constant to 0.1 from last two fiscal year





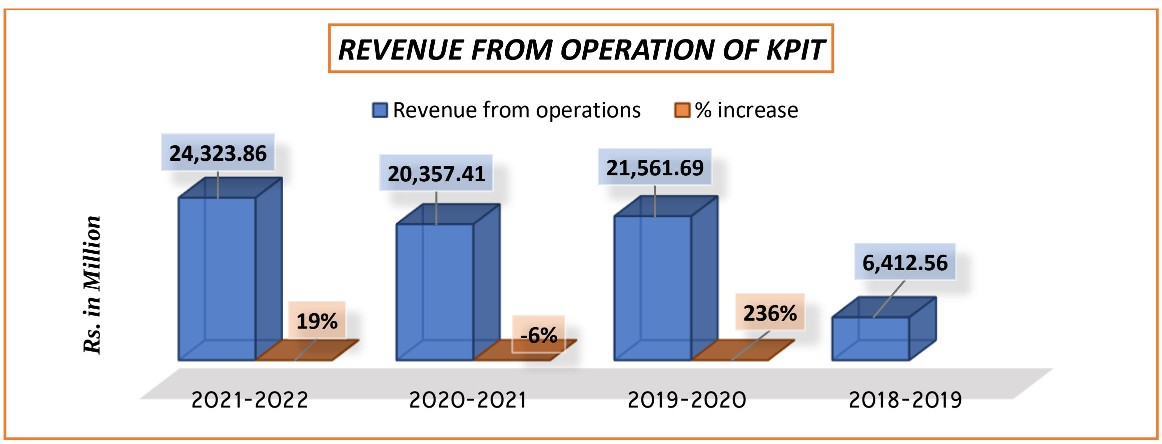
Source: Annual Report

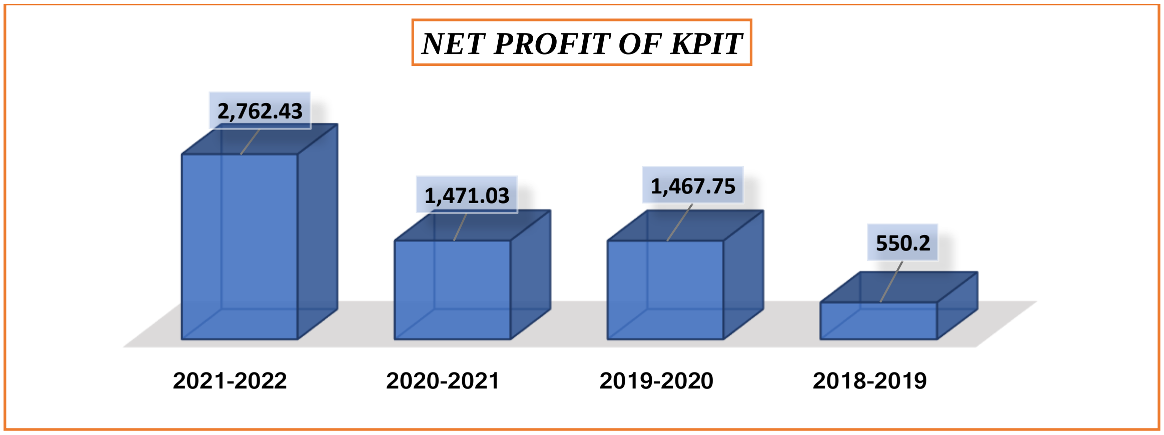
- The excess cost of buy-back of 18,049 crores (including 49 crores towards transaction cost of buy-back) over par value of shares and corresponding tax on buy-back of 4,192 crores were offset from retained earnings.

Mid Cap Company:

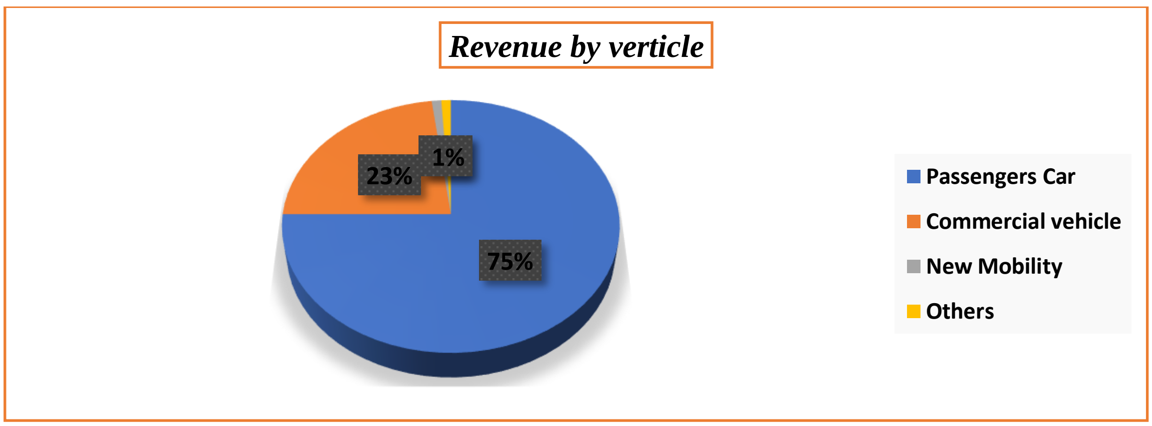
KPIT: is a global technology company specialized in embedded software, AI, and digital solutions providing IT Consulting and Product Engineering solutions and services to Automotive, Manufacturing, Energy, and Utilities companies. It is a leading independent software development and integration partner helping mobility leapfrog towards a clean, smart, and safe future. It accelerates clients' implementation of next-generation technologies for the future mobility roadmap.

- There has been a significant increase in revenue from operation of 19 percent from FY21 to FY22. The EBITDA for FY21 stood at 15.2% as against 13.7% for FY20. The EBITDA for FY21 was ₹ 3,101 Million as against ₹ 2,954 Million for FY20. The net profit of the company increased by approx. 88 percent from FY21 to FY22 and it increased by 402 percent from FY19 to FY22. As on March 31, 2021, the total debt stood was NIL. As on March 31, 2020, the total debt was at ₹ 542 Million comprising of ₹ 376 Million of Term Loan and ₹ 166 Million of Working Capital Loan.



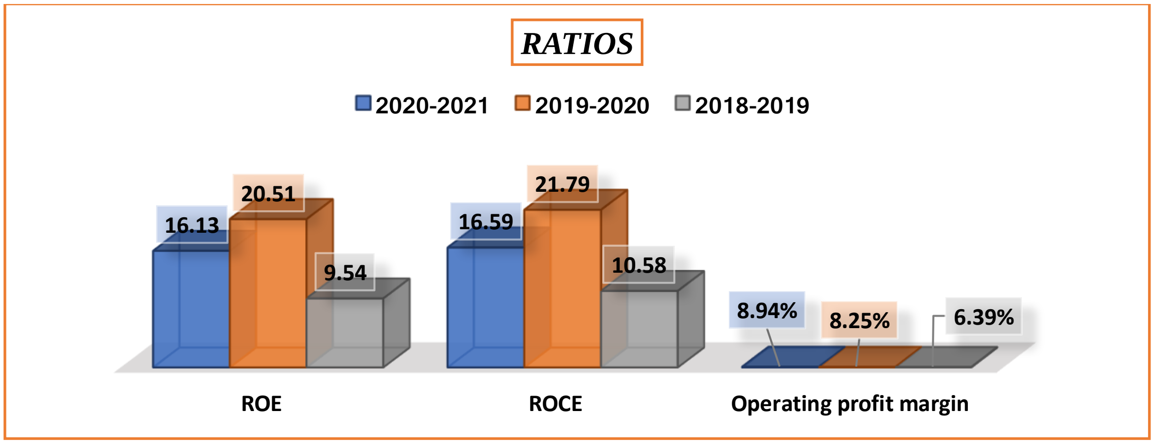


- The company major revenue comes from passenger car which is 75 percent. It shows that company is highly depended on passenger vehicles and as demand and supply for passenger vehicle fluctuate it could impact the profitability of the company. 42% of the company's revenue come from U.S and 41% comes from Europe.



Source: Annual Report

- The operating profit margin of the company is low as compared to TCS and was 8.94% in FY2. The return on equity and return on capital employed has been somewhat constant from FY19 TO FY21. The company Debt to equity ratio is almost zero which means the company doesn't have any obligation to pay in the future. The company's current and non-current borrowing is very less which could also mean the company is not spending on its expansion policy. The DSO were at 54 days as of March 31, 2021, as against 66 days as of March 31, 2020. The Company is consistently focused on faster cash conversion and as a result have been able to bring down the DSO substantially



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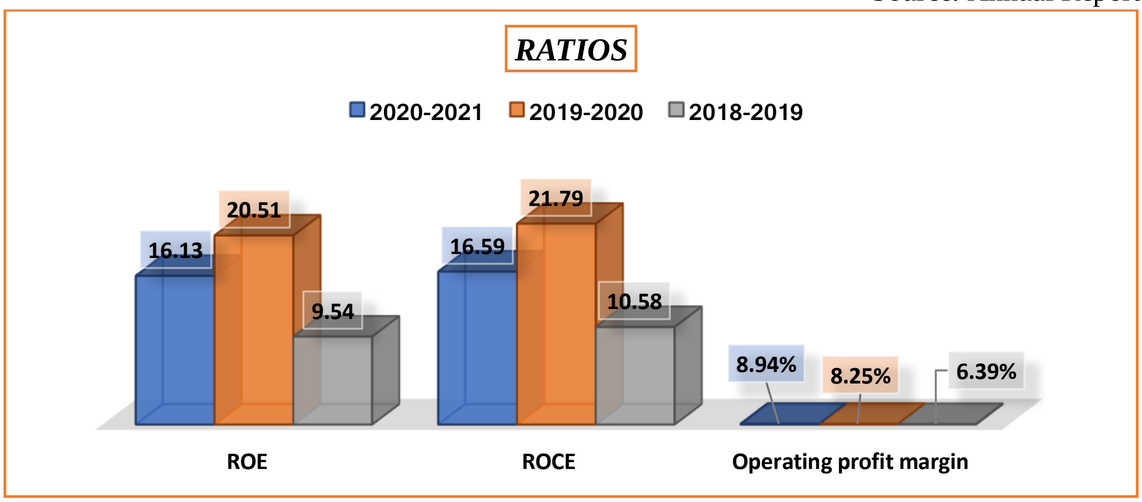


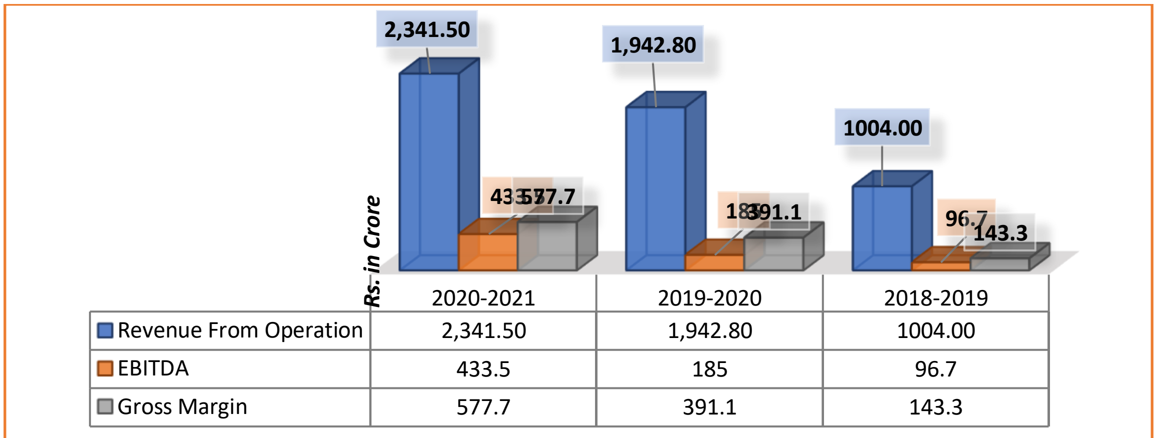
Source: Annual Report

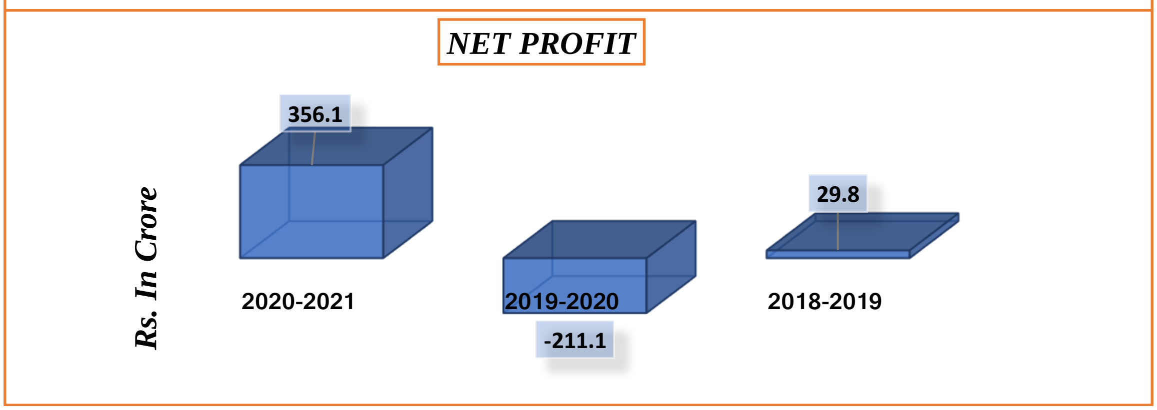
- The Company's profitability is significantly influenced by clients' spending patterns, competitive pricing pressure, and increasing employee and other operational costs. Significant currency fluctuations have an impact on Company's financial results. The Company's current revenues are generated from the automotive vertical and passenger car segment. Cyclical nature Disruption in the automotive industry can have an impact on Company's growth and profitability.

Small-Cap Company

Tanla Platform: It is one of the largest cloud communication providers in the world**.** It provides mobile messaging and payment solutions for application to Peer (A2P) messaging services. The messaging platform has advanced security, reliability, analytics, and service levels along with the proven ability to process the largest volume of messages per second.

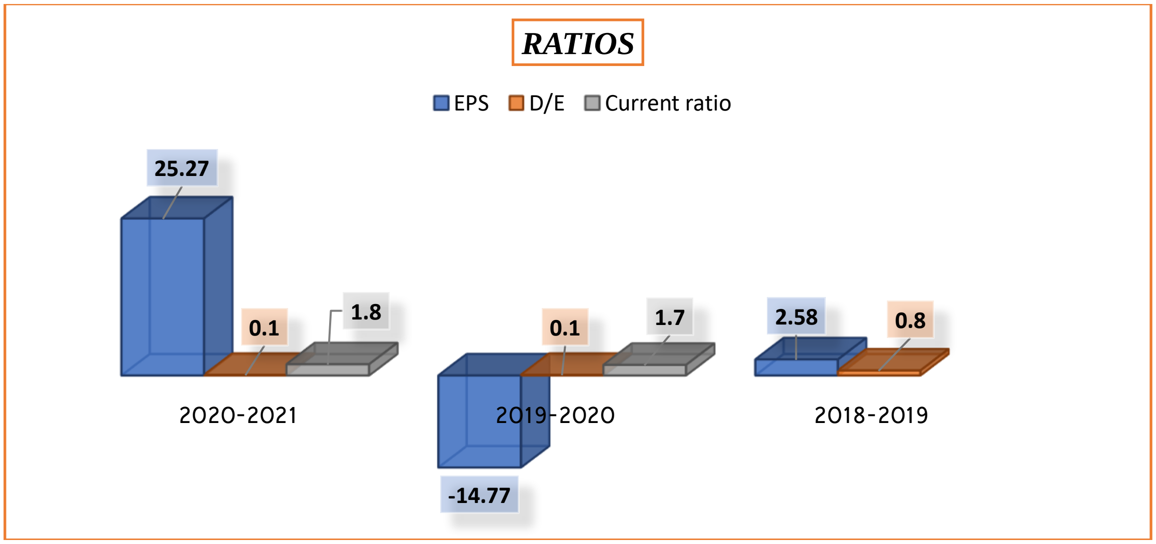
- The revenue of the company in FY21 increased by 21% and by 94% in FY20. The net profit of the company also increased by 269% in FY21 which was negative in FY20. This has happened because it was driven by the launch of Trubloq (Trubloq is the world's first blockchain-enabled CPaaS stack), which created a completely new stream of revenue. Enterprise revenue grew by 18%, driven by higher volumes, particularly from international long-distance business (ILD). Foreign currency revenue contributed 39% of revenue. It also acquired Karix Mobile private limited which is helping in the company's growth strategy and deepening its enterprise reach.





Source: Annual Report

- The company's Debt to equity ratio is very low which shows company is in a good condition and is not aggressively financing its growth through debt. It also shows not high risk is associated with the shareholders, but the current ratio of the company is high which shows company is borrowing more short-term loan compared to long term loan. Cash & cash equivalents stood at Rs 584.14 crore in FY21, up from Rs 200.57 crore in FY20



Source: Annual Report

- The company recently announced a partnership with Vodafone Idea for providing solutions for entire international messaging traffic on the Vi network. India's international messaging market is estimated to be Rs 3500 crore annually. According to the company CEO, stellar performance was contributed by higher wallet share from existing customers and additional market share expansion from newer clients. Tanla processes more than 800 billion interactions annually and about 62% of India's A2P SMS traffic is processed through its distributed ledger platform - Trubloq, making it the world's largest Blockchain use case.

Stock market: The IT stocks are falling in the last five months, and this is because countries are facing high inflation, slow growth, disruption in the supply chain, the Ukraine- Russia war causing uncertainty in the world and change in interest rate by U.S federal reserve and Reserve Bank of India. The United State of America has shown negative growth in the last Q1 OF CY23 why the investor is bearish on the stock the U.S can go into recession if the Q2 result is also negative. Because of the recession fears in the U.S, the Indian stock is also down because sixty to seventy percent of the business of the Indian IT sector comes from the U.S. Recently Nomura and JP Morgan downgraded the IT sector. There is also high attrition in the IT sector because of which there is going to be margin pressure for some time. The enterprises that are willing to spend on digital transformation will continue but the growth rate on spending will decelerate because of fast-changing macroeconomic conditions, hawkish fed stance, and profit warnings by corporate across the globe. The Nasdaq is down by more than 20 % and 475 of the stock in Nasdaq is down by fifty percent.