

Expert call takeaways

Sector Report

SECTOR UPDATE

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We hosted R. Srikrishna, CEO, Hexaware, to gauge technology demand trends and growth outlook. Key takeaways from the call: i) Overall demand should improve, though not significantly; CY24 growth should be better than CY23, but would still be well below CY22 (2-4% higher growth rate in CY24 over CY23). Over the medium term, growth rates should settle between pre-Covid levels and Covid growth rates. ii) Recent growth moderation is due to demand normalization post-Covid and additional caution by clients amid macro uncertainties. Mr. Srikrishna expects the latter to reverse, as macros stabilize. iii) He also expects clients' fickle behavior to continue till economic pressures sustain, and leakage may stay in the existing business, order conversion to revenue, etc. Clients may continue to pause/defer transformation projects, which are not affecting the business immediately. However, outsourcing projects are less likely to be paused/delayed. Although, there may be a delay at the start due to regulatory approvals, HR reasons, etc. iv) There is increased scrutiny on project approvals with a clear focus on ROI and funding of programs. v) Midcaps should continue to outpace large caps. A key change in midcaps over the last few years has been the improvement in the quality of management. vi) Gen AI is the new digital and is likely to be net positive for the industry over the medium term. He expects business impact from the Gen AI cycle to be quicker compared with previous technology cycles.

Other key takeaways

- The travel sector was a savior over the last couple of years, but it can see some headwinds as airlines' profitability is likely to be impacted by wage revisions (after settling with unions) and growth may moderate due to economic conditions. Auto and media are the other sectors where union labor unrest can potentially impact the profitability of companies. The consumer sector remains strong, while hi-tech is on a rebound. Manufacturing should continue to remain choppy. Banks are net beneficiaries of a high-interest environment, while capital markets, mortgage, wealth management, and asset-side segments have a net negative impact.
- Outsourcing is less likely to see project cancellations/ramp downs, though project commencement delay is possible. For transformation projects, non-critical project postponement is possible, with a chance of existing work being paused also being a likelihood. Cost-takeout deals are gaining a share in deal closures as well as in the deal pipeline. Cost-takeout deals are usually large in size and, thus, give some advantage to tier-I service providers. Cost-takeout deals are likely to drive TCV higher, but there may be a lag in terms of its translation to revenue. Given the current volatile macroeconomic conditions and easing talent supply situation, service providers should focus on accelerating revenue rather than margin expansion.
- Companies that are showcasing strong growth are rolling out salary hikes and variable pay consistently. It will augur well over the medium term in talent retention. Labor cost pressures have now eased out.
- Most real-world enterprise use cases require mixing client data with LLM capabilities. The number of employees getting trained, order book/revenue disclosures, and right partnerships should be good lead indicators of Gen AI progress. Companies need to invest in Gen AI to build capabilities to remain relevant over the medium to long term.
- Europe has been growing faster than the U.S. over the last few years and that trend should continue. A tougher macroeconomic environment usually accelerates growth in Europe due to increased focus on cost-takeout deals. Middle East is relatively small for the industry, but it can potentially grow faster than other major geographies.
- There could be some implications for the industry due to the deterioration in India-Canada relations and de-escalation is essential.
- In Mr. Srikrishna's opinion, largescale restructuring may not necessarily affect the performance of IT companies, particularly large caps. However, gaining market share/wallet share from existing clients is critical for driving sustainable growth and revenue acceleration.

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