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## Other News

INTERVIEW

### Hexaware sales growth to outpace peers in 2019: CEO

Client-specific issues had capped the Mumbai-based company's growth over the last two years but 2019 will be stronger as recent deal wins translate into sales, Chief Executive Officer R. Srikrishna said in an exclusive interaction with Cogencis.

### Global economic worries to weigh on IT cos in 2019

The revival in growth of companies in Indian information technology space in early 2018 and strength over the course of the year resulted in sharp gains for their shares, but a repeat of this trend is not likely this year, analysts said.

FOCUS

## IT industry stares at lay-offs as deal flow dries up

Informist, Tuesday, Dec 27, 2022

By Reshab Shaw

MUMBAI – As information technology companies see a moderation in their attrition rates, they are faced with the prospect of inadequate deal flow to keep their workforce productive. The slowing down of deals may lead to either a decline in margins or companies resorting to lay-offs, industry experts say.

For nearly two years, attrition was on the rise in major IT companies such as Infosys Ltd, Tata Consultancy Services Ltd, and HCL Technologies Ltd, even as they grappled with a sudden flow of new deals in the aftermath of the COVID-19 pandemic.

Even As The Last Year And A Half Saw Earnings Of IT Companies Being Crippled By rising Attrition Levels, a Reverse Effect May Play Out In The Coming Quarters.

After five quarters of continuous rise, average attrition at the top five IT service exporters—Tata Consultancy Services, Infosys, HCL Tech, Wipro Ltd, and Tech Mahindra Ltd—dropped marginally to 23.00% in Jul-Sep from 23.44% a quarter ago. The key metric rose by 132 basis points to 11.48% way back in the March quarter of 2020-21 from 10.16% the previous quarter.

The reasons for the exodus of employees from frontline IT companies over the last 12 months are several, but the most important has been the unprecedented surge in demand for trained professionals to ease the large-scale transition of companies to digital platforms in the wake of COVID-related curbs.

Overnight, companies that were happy with traditional modes of doing business were required to put in place infrastructure to both sell their products and to conduct basic functions remotely. This led to a huge flow of new orders for Indian IT companies, which were completely unprepared to deal with the surge in demand. However, loathe to say no to any order, they resorted to finding employees at whatever cost to fulfil these contracts.

Companies doled out various retention incentives such as increasing the frequency of promotion cycles, bonuses, and employee stock ownership plans. They also took in a record number of fresh graduates and mid-level employees, with the industry hiring a whopping 450,000 employees in the year ended March, according to IT staffing solutions firm Qess Corp Ltd.

Recently, however, the market for technology professionals has cooled down considerably, said Kapil Chugh, partner-IT advisory, Nangia Andersen LLP. There have been several reports of global IT companies letting go of a large number of employees in places like the US. According to data collected by analytics firm GlobalData Plc, redundancy related news items jumped to 122 in Oct-Dec from seven in Jan-Mar. In contrast, hiring related news came down to 30 from 83 during the same period, according to Dhaval Joshi, director of news and deals at GlobalData Plc.

Although Indian firms haven't followed suit yet, employees are likely to be more cautious before putting in their papers hereon.

"The technology job market, which was overheated in the last few quarters, has begun to cool off," Chugh said, adding that it would not return to pre-pandemic levels anytime soon.

#### WHAT NEXT

Even as the last year and a half saw earnings of IT companies being crippled by rising attrition levels, a reverse effect may play out in the coming quarters. Operating margins typically rise when attrition rates come down, as this leads to a drop in sub-contracting costs and annual salary increments. This could be seen in improvement in Infosys' operating profit margin to 21.5% in Jul-Sep from 20.0% in Apr-Jun.

Chugh said employees leaving these companies in large numbers was one of the major factors that dragged down the profitability of IT companies in the last few quarters. "Going forward, lower attrition will certainly help IT majors improve their margins by reducing recruitment cost, reducing sub-contracting cost, higher 'billability' and improve quality of service due to continuity of resources," said Chugh.

Nonetheless, this sudden abundance of employees is not without its downsides. If new deals dry up due to recession abroad, companies will be forced to trim their employee base and lay off many of their recent hires, particularly the inexperienced ones.

"Large IT companies have seldom publicly announced layoffs," Chugh said. "But in the case of prolonged recession in major economies, they may also look at easing out employees who are lower down the performance ladder or on the bench beyond the threshold duration."

All in all, attrition has slowed down, but multiple headwinds might end up as a bummer for an industry that is already talking about clients being cautious on budgets and spending. End

Edited by Avishek Dutta

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