IT sector on recovery path as top firms go head hunting

Industry expanding at above global GDP growth rate; digital pilots gaining pace

MINI TEJASWI

After some years of a dry drive. Indian tech firms now seem to have turned the corner and established themselves firmly as digital transformation agents in the global market, international IT experts have

Growth is picking up for the Indian IT sector and the good news is that most players have a strong hiring plan in place.

Clear upswing

Last fiscal's performance numbers posted by the country's leading players reflect a clear upswing in the market. All the digital pilot projects that were under way over the last couple of vears are now going mainstream and are being scaled into enterprises. This means more work and sizeable contracts for vendors and systems integrators, global tech analysts told The Hindu.

Bendor-Samuel, Peter CEO of Dallas-based Everest Group said, "The Indian firms seem to have turned a corner and established themselves firmly as important players in the modernisation portion of the new digital market.'

The industry continues to expand above the rate of growth of global GDP. This is driven by digital transformation and increasingly the modernisation of IT movement which continues to gather steam. This otherwise promising outlookwas somewhat clouded by a slowing global GDP for all areas outside the U.S. and the cannibalisation effect that modernisation is hav-

ing on legacy IT and BPO, he added. Phil Fersht, CEO and chief analyst of Cambridgesearch, said that last year

seems to be going back to high single-digit growth, though we can't really expect the 25%-plus growth rates common 5-6 years ago. Focus has to shift outside the U.S. and U.K., into

growing/emerging markets, includ-

had been 'terrific' for Indian ing India, to rebalance the providers – much better portfolio," she added. than anyone's prediction. People, job factor

"TCS is fast becoming a monster of IT services and this company is capable of winning any large deal if it really wants. Infosys is clearly a fast-mover and Wipro has been steady and will

Digital services are going mainstream which will propel growth for the next few vears. Revenue from the digital business is getting close to 30% or more of total revenue and growing at a healthy pace, which is a good thing and bodes well for the vendors, said Hansa Iyengar, senior analyst (Advanced Digital Services) at London-based data research and consulting firm Ovum.

Indian IT vendors continue to rely heavily on the U.S. and U.K. markets for a large portion of revenues. Though this is changing, any protectionist measures in the U.S. (including due to the presidential election next vear) and uncertainty around Brexit may impact revenues in the short term.

"Overall, the market

have large opportunities to move forward. Overall, I expect hiring to go up, but the skill mixes will change. Digital transformation is hard to evaluate as what is considered a digital project varies by firm but overall the hiring numbers are all up. The big growth area for 2020 will be cloud migration, Microsoft practices, and AI," he predicted.

The Indian IT sector is ex-

pected to create some 2.5

lakh fresh jobs in the cur-

rent fiscal, as per a recent

report by staffing services

firm TeamLease. These

numbers point to a positive

outlook for the country's

\$167 billion tech industry.

The job recovery trend is al-

ready evident from the hir-

ing by leading players. Tata

Consultancy Services, Info-

sys and Wipro have added

29,287, 24,016 and 11,502

software professionals res-

pectively in the fiscal ended

March 31. 2019, or, 64,805

In FY18, TCS added only

7,775 and Infosys, 3,743. R.

Ray Wang, principal ana-

lyst, founder and chairman

of Silicon Valley-based Con-

stellation Research, said the

larger trend was that firms

were doubling down to in-

vest in digital transforma-

increase of 13-17% more for

tech projects. They are hir-

ing more services firms be-

cause they don't have the

skillsets required in artificial

intelligence, machine learn-

ing, data sciences, Internet

"This means IT providers

of Things, Blockchain etc."

"Most are allocating an

new jobs.

INTERVIEW | ARI SARKER

Economy outlook positive, more capacity addition may be seen'

Consumer spending, public investment sustained economy: Mastercard's Sarker

TCA SHARAD RAGHAVAN

The overall outlook for the economy is very positive with even private sector investment showing green shoots of recovery, Ari Sarker, copresident, Asia Pacific for Mastercard, said in an interview. He added that the company was working closely with the Reserve Bank of India to achieve greater clarity and a resolution to the data localisation rules implemented by the central bank. Excerpts:

There are a lot of indicators pointing towards a slowdown in the economy. Are those points of concern for you considering you have committed to invest \$1 billion in India over the next five vears?

■ The broader macro story still remains extremely positive for India. The Indian economy has made great progress in the last five years and you are going to see much more capacity addition, and growth is going to increase.

One of the things that has sustained the economy over the last few years has been consumer spending. The public investment cycle has been the other enabler. However, the private investment cycle has not picked up for a variety of reasons such as the NPA issue, massive logjams in infra projects, capacity under-utilisation. All of those things are working themselves through. As those things work themselves through, and assuming nothing changes with the consumer behaviour and the government continues to have the kind of aggression that they've had

on the public investment front, and now with private investment the cycle is now showing green shoots... If all of this comes together, the momentum for the economy is actually going to be stronger than the last five years.

Your investment announcement has come before the results of the general elections. Doesn't that create uncertainty for your business prospects and outlook in India?

■ India is in for coalition politics. We have seen it for 30 years and the last 5 years were an exception in that sense. But coalition politics is here to stay. My sense is that if the mandate is too fractured, then I think there are concerns. There have been massive structural changes in the last five years, such as GST, the IBC, and the bank balance sheet clean up. There is a lot more to be done in the coming years, and the challenge would be that if the mandate is fractured then the risk of politics becoming predominant and business decision-making

and driving economic growth becoming secondary would be the concern. that India has

crossed a cerwatermark, and has beyond gone the point of no return.

When we make these decisions, although it is a fiveyear outlook, we are thinking beyond five years.

What are the key changes you would highlight in the digital payments landscape in India over the last few years?

Over the last 3-5 years, you have seen massive inclusion. People have come into the financial net. The second enabler is the play of wallets and others that have come in. They are all driving for consumer adoption of digital payments capability. There's also the massive 'booster dose' through demonetisation, which has led to people, who were already connected to the banking system but were still in the cash economy, coming into the digital economy. They haven't gone back, that's the interesting part.

The other thing that is a very positive enabler is UPI, IMPS have scaled up dramatically in the last few years, which means more people are connecting to the digital

The acceptance environment is going through dramatic change. Predemonetisation, only about 1.3-1.4 million merchants accepted electronic payments. Today, we are at 5 based terminals.

Do you see UPI as competition to the cards business?

■ Competition is good. Looking at UPI transactional voltimes, our whole thesis is that the consumers should have the choice of all options. The consumer gets to decide what option they want to use for what purpose. For example, if you want to be in the P2P environment, UPI and IMPS are fabulous options. In certain merchant-facing environments where UPI is making inroads, it's working very well. In some cases, it may not work that well.

How has the data localisation

rule impacted Mastercard? ■ Going back to April 2018 when it started, we have had complete engagement with the RBI all through the process. What we have tried to do is clearly signal to the RBI of our intent to be compliant from day 1. However, the notification was a very slim notification. We had a whole bunch of questions around what this actually means and therefore the debate and discussion has gone on over the pros and cons of the different approaches and aspects from data mirroring to data exclusively in India, the challenges around running fraud services for fraud scoring... All of that discussion over the last five months has been fairly back and forth with the

I feel encouraged that we have made good progress from around the middle of October. Our data now resides in India. The question has been data only in India. We have been working with the RBI to come to a resolution on when data should reside only in India.

Tariff war-torn telecom sector may see recovery this fiscal

Pricing recovery from second half of this fiscal may propel industry ARPU to pre-Jio levels of ₹156 by end FY22, says Edelweiss report; CRISIL sees 7% revenue growth

YUTHIKA BHARGAVA

The Indian telecom industry, which has been grappling with declining revenues following a long and bitter tariff war triggered by fierce competition in the market, is likely to see signs of recovery in the current financial year (2019-20).

The forecast of green shoots appearing are hinged on expectations that marginal rise in tariffs, combined with higher data usage, will drive upwards the average revenue per user (ARPU) seen as the only tool to boost the industry revenues, as subscriber growth is anticipated to remain muted.

In a recent report, agencies such as Edelweiss as well as Crisil have forecast that price recovery in the telecom sector could take place from the second half of the current financial year.

The Edelweiss report titled 'Telecom - Daylight Again' noted that the entry of Reliance Jio in FY17 had unleashed one of the most brutal price wars in India's telemarket, and consequently, the industry's

ARPU plunged about 38%,

causing the total industry size to shrinkto ₹1.4 trillion from ₹1.8 trillion.

"However, finally, there's light at the end of the tunnel as we perceive potent catalysts on the horizon," the re-

It reasoned that mobile broadband penetration crossing 50% had rendered monetising of existing customer base more lucrative than chasing incremental market share and that the hike in price was imminent.

Asset monetisation

Besides, telecom operators are undertaking a massive non-core asset monetisation drive, which makes it imperative for investors to repose confidence in the telecom industry's long-term health.

The report expects these factors to trigger pricing recovery in telecom operators from second half of this fiscal, propelling industry AR-PU to the pre-RJio level of ₹156 by end FY22, from ₹98 in Q3FY19. Crisil believes that the Indian telecom industry will reverse a twoyear declining trend with a 7% revenue growth in fiscal



Perform or perish: Jio's entry not only brought in price disruption, but also triggered consolidation in the sector, forcing existing players to either match Jio's offers or exit. • REUTERS

2020. This growth, it said, will ride on an increase of about 11% in ARPU, even as the overall subscriber base may shrink 4%. "A protracted tariff war has pushed AR-PU to a decadal low. In the past two years, the industry has lost 20% of potential revenue, tantamount to over

₹40,000 crore," it noted. "The telecom tariffs have hit the bottom of the trough and the industry expects to start seeing a marginal increase in them, mainly because the prime mover in tariffs – Reliance Jio – now has about 30% revenue market share (RMS)," Rajan Mathews, director general at Cellular Operators Association of India (COAI) said. He added that any price-led aggression would hurt all players adversely and Jio may not be keen to continue to dilute its earning stream by reducing tariffs.

Mr. Mathews pointed out that with existing operational capacity it was estimated that an increase of ₹1 in AR-PU would lead to a rise of about ₹1,000 crore in terms of profitability for the

industry.

The launch of Reliance Jio not only caused price disruption in the market, it also triggered consolidation in the sector, forcing existing players to either match Jio's offers or exit the market.

As a result, the industry is now left with four players – Vodafone Idea, Bharti Airtel, Reliance Jio, and the stateowned BSNL - which experts believe is the "ideal level of competition".

"Although the company [Reliance Jio] has 30% RMS and significantly higher EBITDA margin (39% currently) than peers, its RoCE is a meagre 3.3% due to high capital employed. Hence, we believe that after achieving one of its key goals - 400 subscribers in H2FY20 - RJio will hike prices to improve return ratios,"

Edelweiss said. Talking to The Hindu, Balesh Sharma, CEO of Vodafone Idea, the largest telecom operator in the country, said, "Our outlook for the

market is very positive." This confidence, he said, came on the back of various factors, the first being the

market size of 1.3 billion, which was still under-penetrated with only three private players remaining. "If you look at the market you have billion active SIM cards. However, when you take into account multiple SIMs etc., we believe there are about 700 million unique users. So, about 600 million people haven't seen their first SIM card yet.And even within the billion SIMs, half are currently not being used for data."

Coverage, capacity

He pointed out that about 46% of the non-data users or 2G users are currently on the Vodafone Idea network. "So, if I have coverage and capacity, I can retain them when they go from to 2G to 4G, from limited to unlimited data, and therefore grow their ARPUs and my revenues. This is just one set of growth opportunity."

Mr. Sharma also said the unlimited prepaid bundles are currently priced at below cost. "This is not logical because you have a category where demand is unlimited, but supply is limited because there is only so much spectrum and so much capacity you can create... by any law of economics it means that this is an opportunity to increase prices". He added that even in terms of market structure, the industry had come down to three private players and a public sector firm which "is the optimum level of competition.

The company is in the middle of raising ₹25,000 crore by way of a rights issue. Rival Bharti Airtel, too, has announced fund raising plans of up to ₹32,000 crore through a combination of rights issue (₹25,000 crore) and bonds. Both Vodafone and Airtel,

have also rolled out minimum recharge plans – at ₹35 valid for 28 days, to weed out non-paying subscribers, which too is helping their respective ARPUs. BSNL too is eyeing a share of the about 500 million population "untouched by mobile phones". Stressing that the worst part is over for the company and the industry, BSNL CMD Anupam Shrivastava said the PSU was best placed to leverage this opportunity, given the reach of its network.