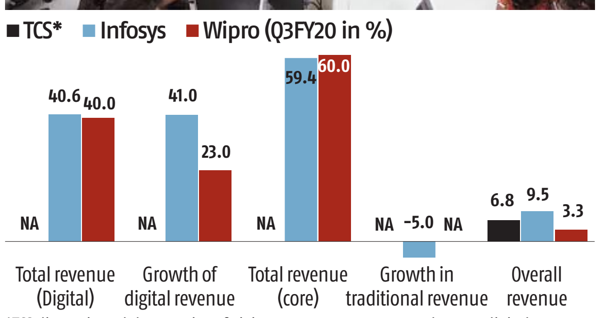
IT firms stare at revenue loss as core biz falters

While Infosys, Wipro saw their revenues from core segment declining in Q3; TCS has discontinued giving figures

DEBASIS MOHAPATRA
Bengaluru, 21 January



*TCS discontinued the practice of giving separate revenue numbers on digital from Q3FY20
Source: Companies

Indian IT services firms will increasingly find it difficult in posting double-digit growth as revenues from their core application development and maintenance business continue to decline. This is, despite the fact that digital revenues now constitute 40 per cent of their top line, at least 10 percentage point increase over the past one year.

Experts are of the opinion that though digital services hold the future, the companies are likely to take a hit during the transition period.

"While the pressure on traditional services is extremely high, we are not in position to judge the speed of decline as of now. However, there is a clear message that the overlap between traditional and digital services is growing, leading to some level of cannibalisation," said Sanchit Vir Gogia, chief analyst and chief executive officer (CEO), Greyhound Research.

Analysis of the third quarter earnings for this financial year pointed out that revenues of these companies from traditional businesses either declined or grew at a slower pace. For instance, Infosys' core revenues declined 5 per cent year-on-year basis while HCL Technologies' mode-I revenues (mostly constituting the core segment) grew 0.3 per cent. While the numbers for Wipro were not available, sources said it was on a negative zone. The market leader, Tata Consultancy Services (TCS) has discontinued the practice of providing separate figures for digital versus core revenues from third quarter onwards.

"Digital is not growing that fast, while core is declining every year. That is the reason that for most firms, growing at double digit has become a challenge," said Pareekh Jain, an IT outsourcing advisor and founder of Pareekh Consulting. "IT firms are witnessing cannibalisation of their revenues to an extent, which is visible from the fact that clients are asking for discount during the time of project renewal."

Experts opined that the line between core and digital are getting blurred and in the absence of any reporting framework, TCS' decision not to differentiate between the two is logical. "If you see, TCS is taking the approach of Accenture, which has also stopped reporting digital revenue as in every project, there is a component of digital now," Jain said.

Interacting with analyst, the CEO and MD of TCS, Rajesh Gopinathan, had echoed this sentiment. "It is becoming difficult to differentiate between what is digital and what is existing, and that boundary has become a very nebulous boundary. That is why, we are discontinuing reporting from this quarter onwards," Gopinathan had said.

Despite the fall in core revenues, IT firms are recovering faster owing to new revenue streams. "The growth of newer revenue lines has started in a significant way. So, it's not May Day yet," said Gogia of Greyhound Research.

Asean bloc invite India for RCEP dialogue next month

But govt yet to take a call on participation

SUBHAYAN CHAKRABORTY
New Delhi, 21 January

Major issues and What it would have meant

IMPORT CAP FORCHINA
Mechanism to raise tariffs on Chinese imports if it crossed certain threshold

MORE TRADE IN SERVICES
Cross border movement of Indian IT, medical workers, teachers

ASSURANCE ON MARKET ACCESS
Preferential access to Indian goods in Chinese, Asean markets

2019 TARIFF BASE YEAR
Tariffs would have been slashed on prevailing duties in '19, others wanted '14

NO MFN COMMITMENT
India would have had to give similar benefits to all nations irrespective of earlier trade deals

India has been extended an invitation to join talks on the proposed Regional Comprehensive Economic Partnership (RCEP) next month, but is still on the fence about participation, say sources.

The 10-member Association of the Southeast Asian Nations (Asean) bloc has invited India to Bali, Indonesia, for RCEP talks on February 3-4.

The Asean secretariat hopes the meet may be able to iron out existing wrinkles raised by India. Since there had been no significant progress on the matter over the past two years on most issues, New Delhi is yet to decide on the invite, an official said.

The RCEP is a proposed pact between 10 Asean economies and six others (New Zealand, Australia, China, India, Japan, and South Korea) with which the grouping currently has free-trade agreements.

In November last year, the Narendra Modi government had announced it was pulling back from RCEP talks, arguing doing so would adversely affect national interest. Modi had informed the other leaders that the deal in its latest form "does not fully reflect the basic spirit and the agreed guiding principles of the RCEP".

This was a nod by the government to concerns raised by domestic industry and farmers, most of whom had opposed the pact, fearing it would lead to uncontrolled dumping by China. But the RCEP nations had left the door open for India — the largest untapped consumer and industrial market — in the bloc.

All nations, apart from India, went ahead with the deal after the conclusion of the summit in Bangkok. "Participating countries have concluded text-based negotiations for all 20 chapters and essentially all their market-access issues," said the joint statement issued after a meeting of RCEP leaders.

"All RCEP countries will work together to resolve these outstanding issues in a mutually satisfactory way. India's final decision will depend on satisfactory resolution of these issues," the joint statement had said.

Negotiations, started in 2012, are currently expected to culminate in a final deal being signed by end-2020. The deal is now being scrubbed for legal issues.

The RCEP issue had divided the domestic industry, with various sectors like retail, dairy, and electronics vehemently opposing the deal, fearing an onslaught on imports from China and other nations. But other sectors, such as textiles and pharma, had supported India's participation, citing the deal provides access to the huge Chinese consumer market.

NITI Aayog had pointed out that existing trade agreements with Malaysia, Japan, Singapore, and South Korea are grossly unfavourable to India and have led to a widening trade deficit with these nations.

India has repeatedly maintained that if other RCEP nations come up with better offers, it will be open to discussion. Currently, India is exploring trade agreements with the US and the European Union to allow the manufacturing and services sectors to benefit from access to large developed markets.

Irdai defers execution of IndAS in insurance sector

SUBRATA KUMAR PANDA
Mumbai, 21 January

The Insurance Regulatory and Development Authority of India (Irdai) has decided to defer the implementation of Ind AS (Indian Accounting Standards) in the insurance sector until the International Accounting Standards Board (IASB) issues final amendment to International Financial Reporting Standard 17 (IFRS 17).

The regulator had planned to implement IndAS 117, which is an equivalent of IFRS 17, and IndAS 109 from April 1 onwards, but the IASB decided to amend IFRS 17.

"While the insurance sector was preparing to implement Ind AS, it was noted that the IASB has taken a considered view to amend IFRS 17. The IASB has indicated that it aims to issue the final amendments in mid-2020," the regulator said.

While the equivalent standard of IFRS 17 is yet to be notified in India, after the final standard is notified by the IASB, the corresponding standard in India will have to be notified by the ministry of corporate affairs (MCA).

"Once the standard equivalent to IFRS 17 is notified in India, Irdai will be in a position to notify the regulations on the preparation of Ind AS-compliant financial statements. Several other regulations that may be impacted because of the implementation of IFRS 17 may also have to be modified appropriately", Irdai said.

Central Government approves 100% FDI in Airtel

The Department of Telecom (DoT) has approved raising of foreign direct investment in Bharti Airtel to 100 per cent from 49 per cent allowed earlier, a stock exchange filing of the company said on Tuesday.

The company also has the approval of the Reserve Bank of India (RBI) that allowed foreign investors to hold up to 74 per cent stake in the company.

"Bharti Airtel has received the approval from the Department of Telecommunications (DoT) vide its letter dated January 20, 2020, for increasing the limit of foreign investment up to 100 per cent of the paid-up capital of the company," filing said. PTI