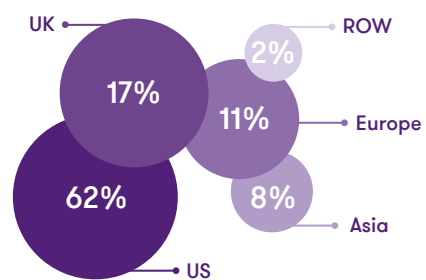


# COVID-19: Leading the road to recovery for Indian IT & ITeS sector

In light of the COVID-19 crisis, most organisations have invoked their business continuity plans (BCPs) across the globe. Business activity has either come to a standstill or slowed down significantly as countries have imposed lockdowns, travel restrictions, and social distancing norms.

According to International Monetary Fund (IMF), the pandemic is expected to reduce global GDP by 3% in 2020 with far-reaching impact across sectors. Indian IT & ITeS industry, accounting for 8% of India's GDP, has also been impacted due to lockdown in key global as well as domestic markets. Major IT & ITeS export markets such as the US and UK have been worst-hit by the global pandemic. Further, major client sectors such as Aviation & Tourism and BFSI, which are amongst the larger clientele of Indian IT & ITeS companies, have seen major impact on their businesses.

## Indian IT & ITeS Exports in FY19



Source: IBEF

## Key highlights of Grant Thornton IT & ITeS survey findings:



### Impact on current operations

- **Existing business:** IT & ITeS companies of all sizes anticipate impact to varying degrees due to existing business being renegotiated.
- **New business:** More than 40% of all businesses across small, mid-sized and large IT & ITeS companies expect a 30% plus impact on their new business pipeline.



### Focus areas for corporates due to COVID-19

- Transition to WFH proved more challenging for small and mid-sized IT & ITeS companies compared to large IT & ITeS companies.
- Larger proportion of small IT & ITeS companies struggled to secure WFH authorisation from clients compared to mid-sized and large IT & ITeS companies.
- Most large IT & ITeS companies were able to manage transition to WFH, but have strong concerns about data privacy and the same concern is strongly reflected amongst the mid-sized IT & ITeS companies as well.



### Policy and government support

- Majority of IT & ITeS companies (regardless of size) have the following asks from the Government:
  - Easier credit lines
  - Tax breaks
  - Relief in statutory dues such as PF, social security and health insurance
- Small IT & ITeS companies further recommend government support in the form of cash assistance, immediate clearance of refunds pending with government and all STPI compliances to be moved online.
- Other government measures being propositioned by IT & ITeS companies large and small include, provision of e-passes for select employees allowing free movement of skilled employees and easing the threshold for transfer pricing margin.



### Revenue growth expectations for FY21

Revenue expectations is service specific as it varies from negative to flat to even positive growth expectations among the companies surveyed:

- 56% of the participants anticipate flat growth;
- 37% of respondents expect negative growth; and
- 7% expect positive growth

## Way forward



### Structural changes expected due to COVID-19

96%

remote working to become future of work

56%

expect geographical redistribution of delivery capabilities

26%

expect increase in contractual hiring



### Global recovery expectation

46%

anticipate moderate U-shaped global economic recovery

39%

anticipate elongated L-shaped recovery

15%

anticipate quick V-shaped recovery

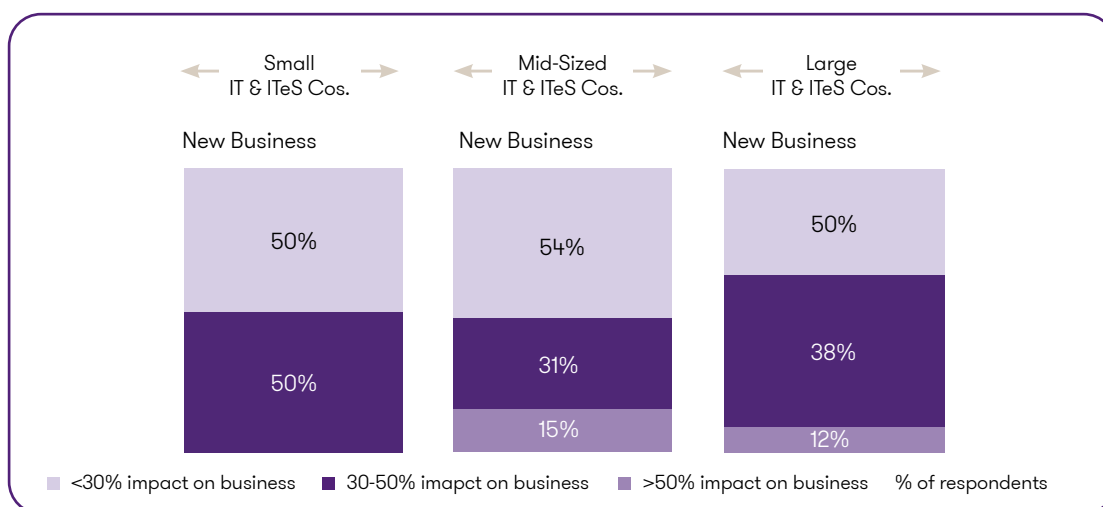
Note: % percentage of respondents



## Impact on current operations

The pandemic could disproportionately impact existing business for small IT & ITeS firms compared to mid-sized and large IT & ITeS companies in percentage terms although new business impact seems to be similar across different segments. Companies providing niche, specialised services are indicating neutral to positive outlook.

### Impact on new business



Note: As per the Grant Thornton survey, impact on existing business has been evaluated based on occurrence of contract renegotiation while impact on new business has been assessed based on impact on new contracts and pipeline.

Source: Grant Thornton Survey

Further, cash conservation is a key priority owing to the slowdown in business activity and delayed payments from clients, especially for tech startups, as investors become resistant to provide additional funding.

In India, the larger IT & ITeS companies appear to have achieved a rather successful transition to 'Work-From-Home' (WFH), as they continue to service their clients through the lockdown, thus showcasing their robust technology enablement and focused workforce. However, sustained client delivery from WFH over a period of time is expected to pose challenges including the risks of cyber security and client data-privacy issues. This crisis also presents a unique opportunity to focus on software products and services that are witnessing an increase in demand such as collaboration tools, telehealth, security, digital, cloud migration, big data and AI. The industry is also likely to eye M&A opportunities in future as companies will look to exit.

Further, tech start-ups backed by investors are also expected to face funding issues as investors and VC funds hold back on new investments in the short-term in addition to the restrictions imposed on VC Funds from certain countries in the new FDI Policies.



### Survey findings

- IT & ITeS companies of all sizes anticipate impact to varying degrees due to existing business being renegotiated.
- More than 40% of all businesses across small, mid-sized and large IT & ITeS companies expect a 30% plus impact on their new business pipeline.



### IT & ITeS sector response and action plan

Indian IT & ITeS sector was WFH-enabled for only a limited section of its overall workforce. Following the lockdown, additional WFH enablement efforts have been made, keeping in mind the complexities of the global delivery model.

In March 2020, the Department of Telecommunications (DoT) modified the Other Service Providers (OSP) licensing norms till

31 July, thereby enabling around 4.5 million employees of India's IT & ITeS sector to WFH.

The new norms now do not require firms to set up Provider Provisioned Virtual Private Network (PPVPN) connectivity and share locations of their employees; also no security deposit is required for availing such services.



### Policy and government support

The Reserve Bank of India (RBI) has extended the realisation period of export proceeds from 9 months to 15 months from date of export, for exports made till 31 July 2020. The measure allows IT & ITeS companies sufficient time to realise revenue from COVID-19 affected countries and provides greater flexibility in negotiating future export contracts with clients abroad.

The Ministry of Commerce and Industry has relaxed the pending compliance requirement for SEZs; for example, the requirement to file the SOFTEX form by IT & ITeS units.



### Survey findings

- Majority of IT & ITeS companies (regardless of size) have the following asks from the government:
  - Easier credit lines
  - Tax breaks
  - Relief in statutory dues such as PF, social security and health insurance.
- Small IT & ITeS companies also call for government support in the form of cash assistance, immediate clearance of refunds pending with government, and all STPI compliances to be moved online.
- Other government measures being propositioned by most IT & ITeS companies include provision of e-passes for select employees allowing free movement of skilled employees and easing the threshold for transfer pricing margin.



## Impact areas and areas of focus for technology sector executives



### Client service delivery and contracts

- As the major markets continue to be in lockdown, it would be only prudent to anticipate that clients would want to re-look at their near-term, as well as long-term contractual commitments. As clients navigate through this crisis, they are expected to cut discretionary IT & ITeS spend, renegotiate pricing of the services and in some cases, resort to deferring or cancelling contract commitments.



### Our view

Client engagement, service delivery continuity and communication should remain key focus areas and this crisis presents an opportunity to strengthen client relationship. Also, service level agreement waivers should be negotiated with the clients given the pandemic.



### Managing working capital, cash runway and cost optimisation

- In these times, the order to cash cycle is expected to be much longer than standard cycle time, thereby impacting the working capital cycle and impacting the operating cash flows. Cost optimisation has to be crafted quickly in the business planning including optimisation measures like deferring/renegotiating of real estate rentals, rationalizing senior management pay, controlling overheads, and cutting discretionary spends.
- While larger companies plan for longer cash turn-around cycles, the mid-sized and smaller ITeS companies are dependent on shorter cash turn-around-cycles to ensure business continuity.



### Our view

Scenario planning around revenue and costs, and weekly cash flow forecasting would need to be adopted to keep a close watch on cash position and determining “cash runway” of the business, in terms of the time period a company is able to sustain revenue fall/de-growth in the coming months and quarters. PE/VC backed companies need to tap into their existing investors for capital and also seek alternative financing lines from banks as appropriate.



### Survey findings

Grant Thornton survey illustrates the following indicators around revenue growth expectations in FY21 over FY20:

- 56% of the participants anticipate flat growth
- 37% of respondents expect negative growth; and
- 7% expect positive growth.



### Employee productivity and work from home (WFH)

Employee health, safety and engagement remain the key focus for most corporates to ensure service delivery and business continuity for the clients. Some of the challenges of WFH would include absence of laptops, lack of proper internet connectivity and lack of dedicated working space. Additionally, there are factors such as resistance to learning and exploring, lesser supervision and challenges around sustained WFH could lead to fall in employee productivity. One of India's largest IT & ITeS company has indicated that they are gearing up for WFH to the extent of 75% by 2025.

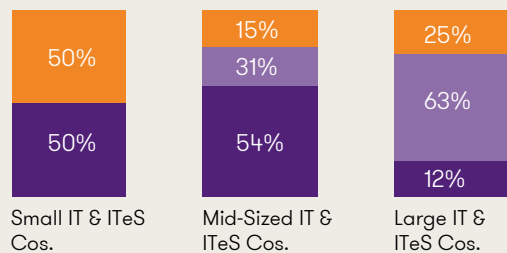


### Our view

Employee engagement, motivation, communication, health focus, as well as WFH technology enablement and cyber security, should remain a key focus area for corporates.

- Appropriate incentive plans, covering both quantitative and qualitative aspects of employee recognition should be carefully planned.
- Further, companies may enhance its employee engagement through proper communication, training and oversight. They may even have to consider providing temporary accommodation in cases where employees are facing WFH issues.

#### WFH Enablement Challenges



■ IT & ITeS Infrastructure to support WFH delivery  
 ■ Data privacy concern  
 ■ Client go ahead concern  
 % of respondents

Source: Grant Thornton Survey

## Opportunities and way forward for India's IT & ITeS industry "Y2020 Moment"

### Helping drive twin agenda of digital transformation (Market focused Outside-In perspective) and internal transformation through WFH enablement (Capabilities focused Inside-Out perspective)

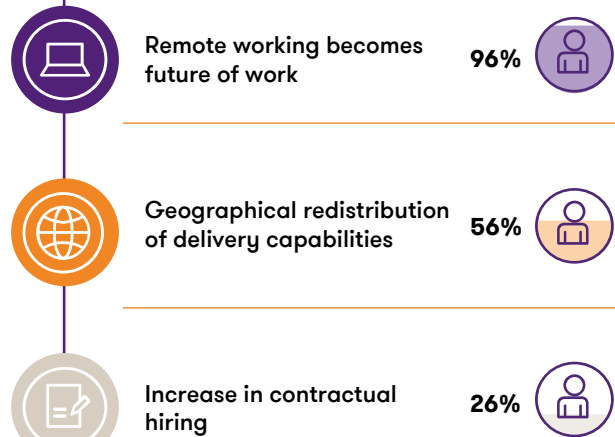
While Y2000 helped Indian companies scale up their global delivery providing legacy systems support, this crisis could be converted as a big opportunity (Y2020 Moment) for the Indian IT & ITeS industry to push digital transformation agenda globally.

The Grant Thornton survey reveals that structural changes such as clients preferring local service delivery could cause certain IT & ITeS companies to reshape their strategies. Even so, majority of companies recognize that the pandemic has made remote working the new norm. As the world moves to a digital work-world, Indian IT & ITeS companies have the opportunity to seize this moment to upscale the digital workforce, support clients in a secure and seamless basis and shape the digital way of working with its clients.

Post this crisis, while WFH could not only help companies reduce its real estate overheads but also tap into an increased talent pool.

### Top 3 structural changes expected

\*% of respondents



Source: Grant Thornton Survey

Some of the strategic priorities of the industry could focus on:



#### COVID-19 related IT & ITeS products and services

- COVID-19 tracking, Hotspot Analysis



#### Accelerate reskilling needs for future of work agenda

- Leverage intermittent lockdown events to push learning, reskilling



#### Enable remote working capabilities

- In the absence of physical proximity, collaborative tasks such as team meetings, workshops, joint-work environments are being transposed to the digital workspace. Some of the key issues on the user-experience side of these digital tools are ensuring uniformity of experience, user-dexterity to adapt the new tool, bandwidth dependency. Similarly, the providers of the tools as well as the IT & ITeS companies have key concerns to manage around data privacy and security while the tools are widely adopted.



#### Driving digital transformation

- Adoption of e-commerce (addressing lockdown), Industry 4.0 technologies and need for WFH enablement will impact sectors across healthcare, banking, e-tailing, manufacturing, etc.



#### Consolidation and M&A opportunities

- The crisis could lead to companies willing to sell and thereby, Indian IT & ITeS companies could look to acquire as "value-buy" including strategic partnerships.
- The recent Facebook-Reliance Jio deal of USD 5.7 billion presents a massive partnership to leverage the strengths of two strong digital power-houses and could pave the path for next stage of digital commerce and payments in India.
- The crisis presents an unprecedented risk and opportunity for Indian technology players to enable digital transformation and technology enablement for global commerce and trade.



The crisis presents an unprecedented opportunity for the Indian technology players to accelerate digital transformation for global commerce and trade. The Indian IT & ITeS sector should therefore plan and prepare to seize the opportunities resulting from the tectonic technological shifts expected from this pandemic.

Note: As per the document, small IT & ITeS companies have revenue < INR 100 crore, mid-sized IT & ITeS companies have revenue > INR 100 crore and < INR 2,000 crore, large IT & ITeS companies have revenue > INR 2,000 crore

### Global recovery expectation

Q2 Recovery: 15% of respondents

Q3 Recovery: 46% of respondents

Q4 Recovery: 39% of respondents

Source: Grant Thornton Survey

### How can Grant Thornton help you

We work with technology sector companies across hardware, software, communications, BPO and business services companies including finance reporting advisory, risk advisory, tax, transaction advisory, performance improvements, cybersecurity and data privacy. Specifically, we can:

- Assist with a COVID-19 business risk assessment
- Identify cash management and other strategies needed for the near-term
- Support reassessment of business continuity plans
- Work with you in any way that will assist your company to navigate through the challenges

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We would like to highlight that our findings are based on feedback received from the respondent group of companies and therefore, may not necessarily be fully reflective of the trends. In the event, the respondent population was more, the trends and findings could be different.

[Click here to download the recently released Grant Thornton Halt-Plan-Refresh Guide on revisiting business priorities and plans](#)



For more insights on the COVID-19 crisis, scan this barcode to see continuous updates on our website

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