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Technology sector trends and priorities

Top 10 trends to watch out for

01 March 2023

Content

Foreword

The technology sector will need to navigate the macro-industry and business challenges in 2023, which are expected given the global macro-headwinds and challenges around inflation and an impending recession in key global markets.

In 2021, technology sector companies saw a high in terms of business growth, talent demand, flow of capital, listings and valuations, while in 2022 they saw a pull-back and moderation across most key business indicators. In 2023, global news around technology sector layoffs, valuation meltdowns, slowdown in funding, etc., continue to dominate the headlines.

As far as India is concerned, technology services companies will need to navigate the headwinds in 2023. That said, India is expected to continue to dominate the global technology services market driven by the availability of massive tech and engineering talent as well as the high-quality business and digital transformation impact on global clients.

This report covers the top tech trends, strategic priorities and our points of view on how tech sector leaders would need to focus to create stakeholder value in 2023. The report also covers some case studies of how we, as a firm, have been working with leading tech companies to create and preserve stakeholder value.

As Albert Einstein said, "The true sign of intelligence is not knowledge, but imagination," leaders of Indian technology services companies have the opportunity to re-imagine the growth strategies in 2023.

Raja Lahiri
Partner and Technology, Media and Telecommunications Leader
Grant Thornton Bharat

Executive summary

Current state of the Indian tech ecosystem

The Indian technology services sector has continued to witness robust growth, employing more than 5 million people and revenue growing at 15% year-on-year (y-o-y) to USD 227 billion in FY22 as per a NASSCOM report, Strategic Review: The Technology Sector in India 2022.

Digital services accounted for more than 30% of total sector revenues, indicating strong revenue momentum from digital transformation opportunities.

India is now the third largest start-up ecosystem globally, and NASSCOM estimates that the revenue from the Indian technology services sector will touch USD 350 billion by 2025. We are also witnessing the steady rise of software-as-a-service (SaaS) companies based out of India, the massive increase in global capability centres (GCCs), a focus on deep-tech and several emerging technologies, including artificial intelligence (AI), robotics, space-tech and fintech.

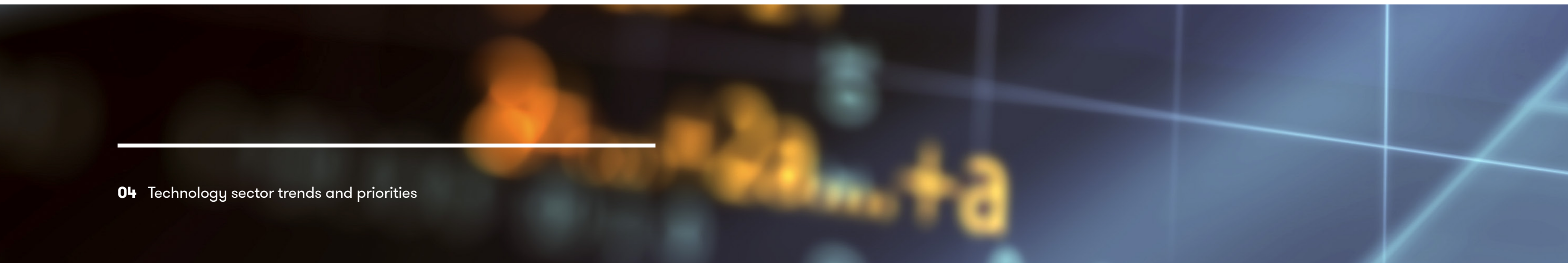
However, global macro trends around inflation and impending recession are expected to pose challenges to the sector, and we are already witnessing pressure on earnings and a drop in the valuation of listed Indian technology stocks as well.

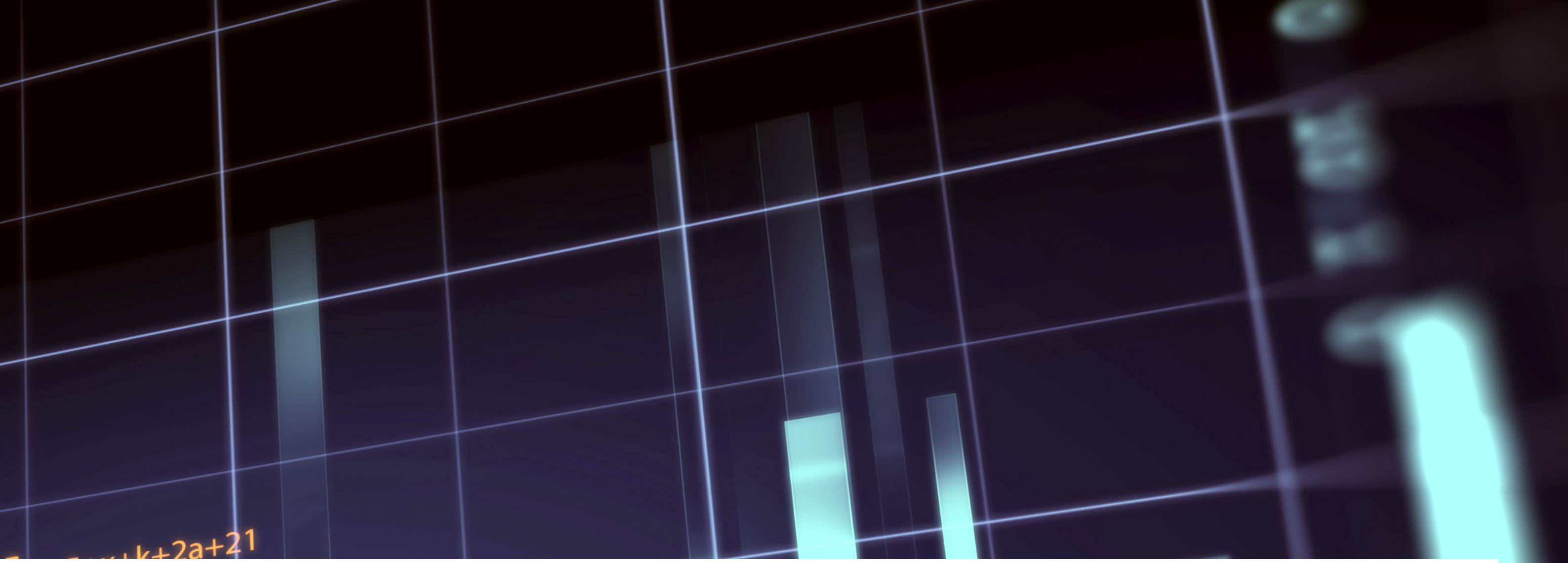
While funding in India slowed down in 2022, according to Grant Thornton Bharat's Annual Dealtracker 2023, private equity (PE)/venture capital (VC) funding in the tech services sector aggregated USD 15.9 billion for the year ended December 2022, reflecting a pull-back in funding compared to 2021 levels.

The spate of fund-raising capital backing start-ups and emerging new-age companies continue to rise in India, and there is significant dry powder available to support the Indian start-up ecosystem, as well as trigger buyout deals and potential initial public offerings (IPOs) in 2023.

In our view, India remains the global leader in technology and the digital services market and is well positioned to capitalise on the massive opportunity to deepen its deep-tech and innovation focus.

'Cash is king', as we always say; perhaps it is time to add 'talent' to the phrase as well and say, 'Cash is king, and talent is queen'. Talent truly underpins the growth opportunity and digital revolution in India.





Value creation and key strategic priorities

Indian technology companies would need to remain agile, resilient, innovative and, more importantly, re-imagine the opportunities and navigate the challenges in 2023.

Pillars of value creation – TREES

In our view, technology would need to unlock business potential across sectors. It further needs to create and sustain business as well as societal values through the principles of TREES.

- **T** Trust (digital trust) and security
- **R** Responsible tech
- **E** Excellence through service
- **E** Experience for the customer
- **S** Skills of employees, digital and new tech skills to be developed

Key strategic priorities

Leaders and organisations could focus on the following key strategic priorities:

1. Develop and enhance capabilities in new-age technologies
2. Develop, upskill and hire technology talent (especially around cloud, AI, digital, design, etc.) across the globe to serve global clients
3. Re-design and build robust global compliance systems and governance as regulations around technology get more complex
4. Ensure cost optimisation and a sharper focus on profitability and choice of capital deployment
5. Re-think and optimise the global delivery model and hybrid work model
6. Make smart M&As to bolster growth areas
7. Plan for IPOs and capital raise
8. Curate and drive a high-performance organisation culture of values, innovation and service/product excellence

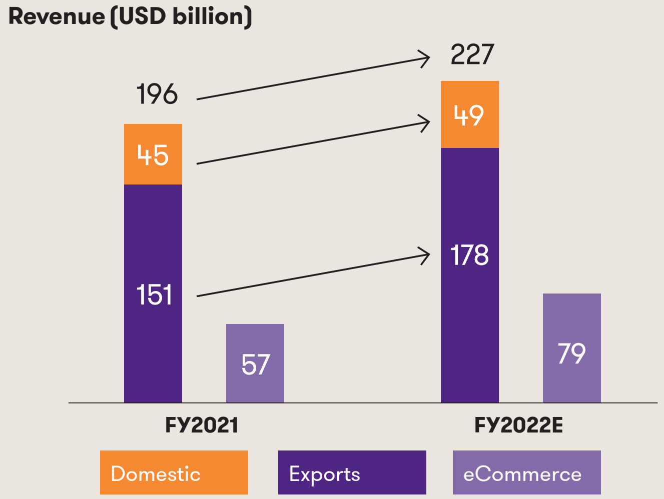
Summing up

Dr. APJ Abdul Kalam said, “History has proven that those who dare to imagine the impossible are the ones who break all human limitations.”

We look forward to working with all of you to re-imagine the opportunities, shape the strategies and execution with a mindset of excellence, and shape a vibrant technology ecosystem in India, the global digital and technology powerhouse.

Indian technology sector landscape

State of the Indian technology sector[1]



Crossed
USD 200 bn revenue
USD 30 bn added in the year

15.5% y-o-y growth
Highest since FY2011

30-32% digital revenue share
USD 13 bn incremental revenue in FY2022E

USD 178 bn exports
51% share of services exports

9% relative share to India's GDP
(Including e-commerce)

Key statistics and story so far

Robust growth trajectory

1. **USD 227 billion revenue** in FY22 and poised to grow to USD 350 billion in 2025[1]
2. **59% share in global sourcing market** and India continues to be ranked no. 1[1]

Future growth drivers shaping well

1. **Third largest** start-up ecosystem globally[1]
2. **100+** unicorns[2]
3. **Indian SaaS** market is gaining strong momentum; 1000+ SaaS companies in India[1]
4. **2,000+** GCCs in India, and the number continues to grow[1]
5. **8.8 billion** digital transactions in FY2021-22, compared to **4.6 billion** in FY2019-20[3]

Talent and employment generator

1. **5 million+** direct employees[1]
2. **1.8 million+** women employees[1]
3. **Ranked no. 1** in tech world for AI talent concentration[4]

Sources: (1) NASSCOM - Technology Sector in India 2022: Strategic Review; (2) Invest India; (3) Transforming India's Digital Payment Landscape, Ministry of Finance; (4) Network Readiness Index 2022

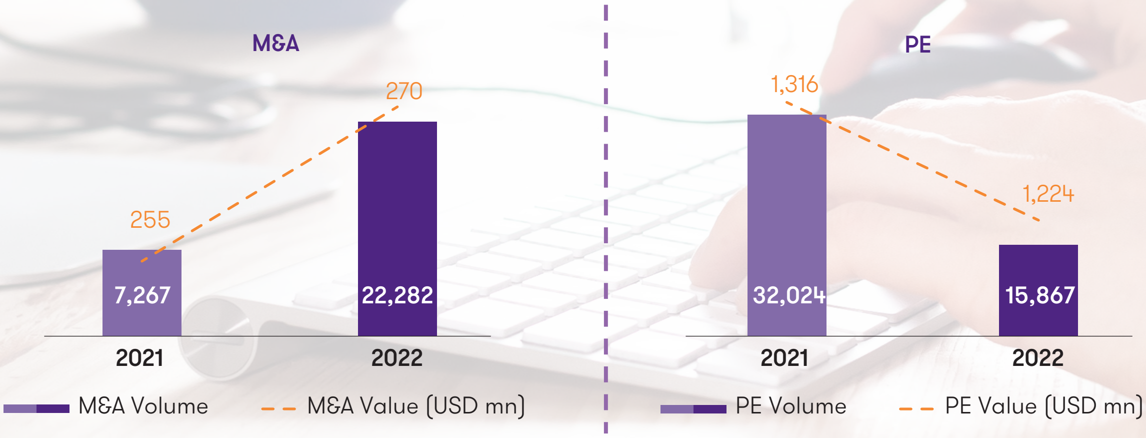
Technology continues to dominate deal-making: M&A, PE and VC

Key deal snapshots for 2022 based on Grant Thornton Bharat's Annual Dealtracker 2023 report

1 Technology sector **constituted 30%** of overall deal values in 2022

2 Technology sector deals touched **USD 38.2 billion**

3 M&A deals of **USD 22.3 billion** and PE/VC deals of **USD 15.9 billion**



Note: 1. Total deal value and average deal size include only those transactions where the deal value has been made public.
2. Technology deals include the startups, ecommerce and IT/ITeS sub-sectors.

Source: Grant Thornton Bharat's Annual Dealtracker 2023

Trends and perspectives to watch out for

1. High demand for tech talent and hiring risks
2. Emergence of hybrid work model
3. Cybersecurity risks
4. Rise of hyperautomation
5. Power of 5G and rise of IoT
6. Metaverse and Web 3.0: The gamechangers
7. Cloud solutions and edge computing
8. Quantum computing optimising functions
9. ESG: The new priority of the technology sector
10. Technology to dominate M&A and PE/VC deals and listings

Our points of view

The war for talent is particularly prominent in the global technology industry because its needs are tighter, and specific skillsets are more difficult to obtain. With the recently announced employee reductions in the major technology firms, this may lead to some additional talent on the market depending on the skillsets of those individuals. Tech firms should keep an open mind to ensure they access the best talent the market has to offer.

Nick Watson
Global Head - Technology Industry, Partner,
Grant Thornton UK

When you have a high rate of growth, you tend to worry less about your efficiency and more about expanding your growth or geography. As growth slows and priorities shift, there are some things that you can do to take advantage of this pause in growth, like restructure and rationalise infrastructure and processes. Tech companies have to figure out how to grow in a slow-growth environment. Maybe that's M&A; maybe it's getting better at securing recurring revenue. Maybe it's a product shift that allows you to respond to what clients need in your marketplace. And some of it is probably retooling your internal operations to be more efficient and effective.

One of the growth areas for tech will be the continued transition of companies to cloud. I think you're going to see a continued — and even accelerated — move to the cloud and to companies positioned in that space who can help.

What will be a constant in the industry, despite all the headwinds, is that there will still be regulatory pressure on the industry. If companies have gaps they need to cover for ESG, privacy, or other regulatory compliance, those might be at the top of the priority list.

Steven Perkins
Grant Thornton Technology and
Telecommunications Industry US National Leader

Indian tech sector continues its growth trajectory and is well posed to touch USD 350 billion by 2025.

Tech leaders would need to re-imagine the opportunities in 2023 and shape their business strategies by adopting the principles digital trust, responsible tech, service delivery/product excellence, client experience and digital skills. Moreover, as revenue and earnings may continue to be under pressure given the macro environment, cost optimisation along with smart M&As could enable growth.

Raja Lahiri
Partner and Technology, Media and
Telecommunications Leader
Grant Thornton Bharat

High demand for tech talent and hiring risks

The demand for technology talent globally, more so in India, is at an all-time high. In addition, many organisations have witnessed high attrition rates, as well as scarcity of new-age technology skills. As technology and digital have impacted all industries and sectors, tech organisations continue to see a demand for skills, mainly in areas of AI, data science, blockchain, machine learning, automation, cybersecurity, robotics and cloud.

Apart from fresh hiring, organisations are also upskilling existing talent, with regular bootcamps in collaboration with ed-tech companies and universities, and short-term courses for specific skills.

Grant Thornton Bharat View

- We believe that one of the key priorities for businesses is to retain existing talent through appropriate compensation structures, as well as to create and maintain a distinct 'people first' culture in which employees are always welcome to express their concerns.
- Training existing talent in new-age technology and digital skills is a must as well. Given the hybrid and remote working trends, a robust recruitment strategy to hire talent across cities and across the world, based on competencies and skills, needs to be designed.
- Building partnerships and alliances with the education and technology ecosystems is important to create a talent pool in accordance with skill needs.

"Tech leaders would need to focus on creating a mindful and high-performing organisation culture which is purpose-driven. Culture, in my view, can bring in a key competitive advantage and needs to start early as firms focus on their growth strategies."

Raja Lahiri
Partner and Technology, Media and telecommunications Leader
Grant Thornton Bharat

"Technology now serves as the foundation for all strategic decisions in most organisations, making technology talent one of the most sought after. This has increased competition among companies to attract and retain top-market talent.

Employers need to differentiate their employee value proposition by catering to the needs of different segments of the employee base, which have different engagement drivers."

Ritika Mathur
Partner
Human Capital Consulting
Grant Thornton Bharat

Emergence of hybrid work model

Following the rapid shift to a remote work model during the pandemic, organisations are slowly and steadily returning operations to offices as well as looking at hybrid models, keeping efficiency and logistical challenges in balance. The key factor here is a culture of flexibility offered to employees, transpiring into models such as ‘work from anywhere’.

This is resulting in the adoption of a new work environment and the need for new technologies, team structures, processes and skills to strengthen the distributed workforce. The new delivery and work model allows businesses to widen their talent pool, giving employees the choice to move out of areas with a high cost of living without leaving their employer.

However, it also comes with its own set of challenges, such as increased dependence on technology, heightened security risks and lower employee engagement. Apart from this, the use of legacy tools can be a challenge in handling physically distributed workforce, suppliers and consumers. There have also been several recent instances of moonlighting, recruitment fraud and integrity matters in hiring.

Grant Thornton Bharat View

- We believe that maintaining a balance between remote and in-office working is the need of the hour for organisations.
- The workforce environment, culture, engagement, training, policies and procedures would therefore need to be re-imagined and re-designed to enhance people’s experience and well-being. Furthermore, appropriate cloud infrastructure, along with necessary levels of data privacy and protection measures, would need to be introduced to ensure client confidentiality and security.
- A thorough review of the hiring process, as well as close monitoring of employees with dual employments, is important to identify potential hiring frauds.

“The newer workforce, particularly in the post-pandemic environment, is looking at hyper-flexible work models as opposed to a traditional 9-5 work week. The main driver for this is a desire to have better control over work-life balance. This has also made high-value freelance/contractual operating models very popular.”

Ritika Mathur
Partner
Human Capital Consulting
Grant Thornton Bharat

Organisations are slowly and steadily returning operations to offices as well as looking at hybrid models keeping efficiency and logistical challenges in balance.

Cybersecurity risks

The rise in digital transformation, 5G rollout, remote working, and use of Internet of Things (IoT) devices has accelerated cybercrime across the globe. As a result, businesses are adopting new strategies to combat the changing threat landscape and to create a digitally secured environment. The demand for cybersecurity professionals is also increasing, as businesses prepare to implement cyber solutions.

Cyber solutions play a crucial role in building digital trust, which is also the first pillar of our value-creation principles of 'TREES'. With the rapid digital transformation happening across sectors, incorporating trust in everything organisations are doing to build a digital future is critical. Right cybersecurity strategies and robust measures to mitigate the cyber risks can help businesses to build a secured and trustworthy digital environment.

The rise in privacy concerns, spyware and ransomware attacks has attracted the attention of governments at a global level, stimulating new regulations and investments.

Cyber AI: AI-backed cyber solutions can effectively counteract cybercrime. AI's predictive and behavioural analytical abilities can accelerate early detection and remediation, easing the burden on security analysts.

Grant Thornton Bharat View

- Given the digitally driven environment in which organisations operate today, we believe the demand for cybersecurity skills will grow significantly.
- Cyber, today, cannot be seen as restricted to technological systems alone. An organisation-wide risk assessment driven by the board of directors, redrawing of risk charters and allocation of fresh investment are the need of the hour.
- Organisations need to be ahead of the curve in foreseeing emerging cyberspace threats to predict, prevent, respond to and remediate cyber incidents at the earliest.
- The importance of third-party risk assessments, the implementation of international standards (ISO) on information and cybersecurity best practices, and compliance with local data privacy and protection laws will get more stringent.
- It is imperative for organisations to tie up with original equipment manufacturers (OEMs) offering products/services in niche areas in cyber for a holistic redesign of their security posture, integrating best-in-class solutions into their respective environments.

"With most organisations going digital today, interconnectedness of systems and networks will see a major upside. Cyber risks feature in both short- and long-term risks facing the world today as per 'World Economic Forum's Global Risks Report 2023'. This will continue to be a major factor impacting organisations and society as the threat landscape continues to evolve and cyber adversaries get more sophisticated.

Organisations would need to accord top priority in preventing, detecting and responding to cyber attacks by instilling a robust governance system, allocating resources and setting up mechanisms to enhance their cyber posture."

Akshay Garkel
Partner and Cyber Leader
Grant Thornton Bharat

Right cybersecurity strategies and robust measures to mitigate cyber risks can help businesses to build a secured and trustworthy digital environment.

Rise of hyperautomation

The rise in digital transformation and business process optimisation has increased the need for automation at a wider level, giving rise to hyperautomation.

It is a business-driven approach automating businesses and IT processes using a range of tools such as robotic process automation (RPA), machine learning (ML) and AI.

The hyperautomation market holds a significant presence in the banking, financial services and insurance (BFSI) and similar process-based industries.

The manufacturing sector has also seen a considerable change with automation transforming the shop floor. The convergence of IT and operational technology has helped modern industry to scale-up with smarter machines entering the market.

Intelligent process automation (IPA), the next-level upgrade to RPA, is also gaining traction. It provides enterprise-wide solutions, reducing labour-intensive tasks, minimising risk or errors and allowing end-to-end visibility of processes and an enhanced customer experience.

Grant Thornton Bharat View

- Tech organisations would need to invest in the fast growing hyperautomation segment, create centres of excellence and spot M&A opportunities.
- The upskilling of operational-level staff to manoeuvre large, automated machines in manufacturing is critical.
- Third-party audits of processes based on automated workflows will be required for an independent assessment of how systems are functioning. Internal controls and risk parameters will need to be reevaluated as organisations' operating the environment will significantly change in an automated model.

"We have witnessed a rising trend in recent times of organisations advancing their automation and digitisation journeys, making it one of the fastest-growing streams for the tech industry. There is keen interest within the industry in augmenting its new-age transformation capabilities, although complex automated environments would require the user organisations to brace themselves against heightened security risks."

Nittin Arora
Partner, Risk Advisory
Grant Thornton Bharat

The rise in digital transformation and business process optimisation has increased the need for automation at a wider level, giving rise to hyperautomation.

Power of 5G and rise of IoT

Remote working during the pandemic has increased the dependency on faster internet services to sustain productivity.

The ongoing 5G rollout will increase the use of IoT, paving the way for previously untapped digital transformation opportunities.

The development of 5G networks is one of the major factors contributing to the growth of the IoT market. It is expected to improve the performance of connected and IoT-enabled devices such as smart homes, smart wearables and automation of vehicles on account of the high data-transfer speed and reliable and stable network conditions. 5G technology is expected to transform education and healthcare by making it possible for the masses to access high-quality services at an affordable cost.

Grant Thornton Bharat View

- 5G rollouts will create opportunities for telecom companies, born-in-the-cloud companies, digital-only players, gaming tech and fintech players amongst others.
- Technology consulting companies will see a huge uptick in their order books with pan-industry 5G implementation, systems integration with the latest infrastructure, etc.
- Engagement with government and local bodies for 5G deployment in areas of social and civic disciplines will also increase. The market for telecom gear and smart devices is also expected to grow.
- With more connected devices on the 5G network, the entry points for attackers will significantly rise, making cybersecurity a priority for organisations.

"The advent of 5G is expected to be a game-changing event not only for the telecom industry but for the economy at large. We are already witnessing accelerated adoption of 5G mobile devices and increased data-consumption trends in areas where 5G networks have been rolled out. This is a big positive for the telecom OEMs and streaming and gaming industries."

Nittin Arora
Partner, Risk Advisory
Grant Thornton Bharat

"Cybersecurity for 5G will gain prominence as applications leveraging modern technologies like augmented reality (AR), virtual reality (VR), metaverse, and IoT for gaming, health, education and e-commerce, involving plenty of data exchange, take centre stage, becoming a new attack surface for hackers. 5G will see a flood of devices and network gear enter the market, turning focus on endpoint security as well."

Akshay Garkel
Partner and Cyber Leader
Grant Thornton Bharat

Metaverse and Web 3.0: The gamechangers

Though currently at a nascent stage, the metaverse, which is a fully realised digital world, can fundamentally change various aspects of life, from online interaction and gaming to market activities, facilitating the evolution of decentralised Web 3.0.

It is expected to be a pathbreaking technological advancement, allowing people to interact, play and work in a virtual environment.

Metaverse is creating immense opportunities in AR and virtual reality (VR) and elevating digital experiences. Apart from finding usage in the gaming and entertainment world, it is also gaining popularity in other industries, such as virtually training workers on heavy machinery operations or safety protocols and virtual trial rooms.

Several brands are exploring creative ways to market themselves by engaging with online games, styling avatars, etc. They have collaborated with non-fungible token (NFT) developers or launched their own NFT collections in the virtual landscape.

The presence of a virtual land can play a significant role by providing a cheaper alternative to physical property and access to a wider customer base when compared to physical locations. It can be useful for retail brands and large showrooms that are reconsidering brick-and-mortar stores.

Grant Thornton Bharat View

- While the metaverse is still finding its feet, tech organisations would need to invest in this new technology and people to engage clients who are early adopters, helping them transform their digital business presence.
- Customer experience is the central focus of digital worlds, where immersive experiences go a long way in engaging customers for a longer duration. 3D modelling and design, VR/AR development, data analysis, blockchain engineering and user interface (UI)/user experience (UX) design will become highly sought-after skills.
- The anonymity and unregulated space in the metaverse pose security challenges in the form of weak user privacy, data breaches, etc., warranting strong cybersecurity measures.

"Web 1.0, Web 2.0 and now Web 3.0. I look at this as a natural progression of how things evolve to become more resilient and efficient. Web 3.0 is aligned to drive the creator's economy, where ownership of content/data is transparently attributable to the creator and can be monetised. Web 3.0 promises to bring encompassing immersive experiences where the individual's identity, his/her assets and economic value transactions can be seamlessly rendered and managed. This would mean transformational change in the way we interact, transact and capture value."

Kalpana B
CEO and Chief Thinker
Grant Thornton dGTL

Metaverse is expected to be a pathbreaking technological advancement and facilitate the evolution of decentralised Web 3.0, allowing people to interact, play and work in a virtual environment.

Cloud solutions and edge computing

According to International Data Corporation (IDC), cloud spending is expected to reach USD 1.3 trillion by 2025 globally. However, some of the key challenges include cloud security, inadequacy of resources and expertise, dealing with multiple cloud providers, and compliance issues.

Organisations today are actively looking for cloud-based services for their IT-infrastructure requirements that are scalable, cost-effective, require less maintenance, but are still secure. This is giving rise to a hybrid cloud model, providing public cloud solutions and the security and compliance capabilities of private on-premise cloud solutions.

Another trend in this space is the 'distributed cloud' model, which distributes public cloud services at multiple locations, including on-premise locations and several third-party data centres, reducing latency issues and the risk of a complete server collapse. Edge computing is also gaining traction, built on localised data centres for computing and storage closer to place of use.

Examples of cloud solutions that can help in resolving related challenges

- **Platform-as-a-service (PaaS):** Businesses seeking to replace or evolve legacy applications with cloud capabilities are resorting to PaaS offerings that provide hardware and software tools to users over the internet.
- **Serverless cloud:** The concept is useful, particularly for small and mid-size enterprises (SMEs), to scale infrastructure at a faster rate. It involves pay-as-you-use, allowing businesses to save on their capital investments.
- **Cloud-based disaster recovery strategy:** The shift to remote working and the growth in digital transformation are driving businesses towards cloud-based disaster-relief-as-a-service (DRaaS). It is a cost-effective automated solution that can respond to breaches faster, thus minimising damage.
- **Multi-cloud strategy:** It enables businesses to use the best cloud services from different vendors, reducing reliance on a single cloud provider.

Grant Thornton Bharat View

- Most enterprises start their journey with a cloud model instead of investing heavily in physical infrastructure sites. According to Amazon Web Services (AWS), the demand for cloud computing professionals in Asia-Pacific is expected to triple by 2025.
- Organisations should look to strike a balance between investments and business objectives when choosing subscription models on the cloud.
- Service-level agreements must be well defined, listing out the scope, roles and responsibilities of the vendor.
- Organisations should have appropriate procedures and technology against threats in cyberspace, creating a digitally secured environment.

"The future of cloud computing is the future of business, as companies of all sizes will rely on the cloud to drive innovation, increase efficiency and reduce costs. The future of cloud security lies in a combination of advanced technologies such as artificial intelligence, machine learning, and behavioural analytics, with a strong focus on collaboration and information sharing among industry players."

Jaspreet Singh
Partner and Clients and Markets Leader – Advisory Services
Grant Thornton Bharat

Cloud services have become an essential part of businesses, attracting significant investments. Edge computing is also gaining traction, built on localised data centres for computing and storage closer to where they are being used.

Quantum computing optimising functions

Quantum mechanics principles, still in their early stages, are expected to gain traction in the technology sector in the coming years. There is a growing demand for scalable computing power, particularly in the pharmaceuticals, biotech, material science, defense, and financial services sectors, which is driving technology companies to develop solutions that optimise complex tasks and achieve quantum leaps.

Top global technology players remain at the forefront in the quantum computing space, whereas several startups are also working on advanced computing solutions to develop hardware, algorithms and security applications. Despite the progressive leap, the segment is experiencing challenges such as the lack of a skilled workforce, a lack of awareness amongst businesses about its potential and issues associated with dealing with errors.

"Computing and processing power is set to witness an exponential leap forward with the advent of quantum computing. Commercial and industry-wide use cases would include applications in cloud technology, chemical engineering, pharmaceuticals, healthcare defence and education, amongst others."

Akshay Garkel
Partner and Cyber Leader
Grant Thornton Bharat

Grant Thornton Bharat View

- Quantum computing is witnessing significant research and investment, as the possibilities it offers to solve complex problems are remarkable. Superconducting quibs, which exponentially increase computing speeds, are being tested in various environments to gauge their accuracy, as they were prone to errors when exposed to heat.
- Quantum computing, unlike classical computing, requires skills in quantum physics, linear algebra, programming and basic electronics, which are rare to find.
- While quantum technology can transform medicine research, materials, self-driving cars, aviation, cryptography and forecasting, we are still in the ideation stages. Investments from the public and private sector are the need of hour. Incentives in the form of government subsidies and tax holidays would immensely help organisations reach the quantum world sooner.

There is a growing demand for scalable computing power, which is driving technology companies to develop solutions that optimise complex tasks and achieve quantum leaps.

ESG: The new priority of the tech sector

- The pandemic has accelerated the growing importance of environmental, social, and corporate governance (ESG) issues worldwide, and the technology sector is at the forefront of this change.
- Companies have made significant progress in reducing carbon footprints and are expected to continue the trend in 2023. Some of the top global technology players have committed to going carbon-free by 2030. Employee well-being, mental wellness, learning and development, and a diverse and inclusive workforce are the other new focus areas as part of the social element of the ESG concerns. Adherence to business ethics and compliance policies, data privacy and security, as well as good corporate governance are also becoming important from a governance perspective.
- Apart from imbibing ESG priorities into their own businesses, technology companies are also focusing on incorporating ESG solutions to help clients achieve their ESG goals. Not just customers and regulators, but also investors are considering ESG concerns before evaluating an investment decision, and the pandemic has just reinforced the propensity.

Grant Thornton Bharat View

- Technology can play a big role in augmenting the efforts towards a cleaner, sustainable environment and reducing the strain on natural resources, through smart manufacturing practices, the use of clean energy alternatives, systems to monitor power consumption, and recycling and the safe disposal of e-waste.
- Smartphones and cheaper internet have transformed people's lives by democratising access to information and thus assisting the most vulnerable sections of the society. As part of their CSR actions, organisations can venture into upskilling initiatives on technology, internet usage and safe cyber practices.

"Technology can play a critical role in helping businesses function sustainably when the ESG principles are incorporated in the early stages of development and deployment. This would optimise product performance and reduce environmental impact. The added advantage would be transparency and automation for ease of business. New and emerging technologies such as blockchain can also be used to facilitate and validate management of an organisation's environmental footprints in terms of carbon, water and waste. This would further help mitigate the impacts on climate change and create new businesses and revenue streams."

Abhishek Tripathi
Partner, ESG
Grant Thornton Bharat

Apart from imbibing ESG priorities into their own businesses, technology companies are also focusing on incorporating ESG solutions to help clients achieve their ESG goals.

Technology to dominate M&A and PE/VC deals and as listings

The M&A market is adjusting, working out what the new normal is in terms of both activity levels and valuation metrics. According to Grant Thornton Bharat's Annual Dealtracker 2023, the technology sector in India continues to dominate and constituted 30% of overall deal values in 2022.

2022 witnessed technology M&A deals worth USD 22.3 billion (270 deals) compared to USD 7.3 billion (255 deals) in 2021, driven by the L&T Infotech-Mindtree merger (USD 17.7 billion).

2022 witnessed PE and VC deals worth USD 15.9 billion (1,224 deals) in comparison to deals worth USD 32 billion (1,316 deals) in 2021. A notable deal in 2022 was Baring Private Equity Asia's buyout of IGT Solutions, previously Interglobe Solutions. Public market valuations have fallen off significantly since January 2021, particularly for high-growth technology assets. We can see these reflected in the prevailing market prices of some of the tech IPOs launched in 2021. By comparison, private-market valuations have remained more resilient. But they have started to show the first signs of easing back.

Grant Thornton Bharat View

- The technology sector will continue to lead M&A and PE/VC deal-making. With rising inflation and cost pressures, global outsourcing and growth for Indian technology players are expected to be robust, leading to bolt-on acquisitions by large players.
- We believe that PE and VC deals will slow down, but high-quality and new-age technology assets will continue to be in demand and attract capital.
- India witnessed a flurry of listings in India in 2021 and high interest for overseas listings, but there was a rapid slowdown in IPOs, which is expected to continue in 2023. However, high-quality and profitable technology businesses, including new-age companies backed by marquee PE and VC funds, will continue to attract investor interest and may trigger listings in 2023.
- We also expect deal-making and enhanced funding in the SaaS segment, as Indian SaaS companies focus on scaling globally. Furthermore, new-age sectors such as spacetech and fintech are expected to receive good funding in 2023.
- We believe the funding environment for startups will moderate, especially in the consumer internet space, with an enhanced focus on profitability and reducing cash burns. This may trigger M&A and consolidation within this space, but high-quality assets with a strong growth story will remain attractive and resilient.

"Technology services have traditionally dominated the M&A space in terms of volume. We have recently seen Indian IT mid-market companies make acquisitions to get access to new markets or domain expertise, giving them immense opportunities to leverage their capabilities and cross-sell.

With the strong dollar adding to the cash reserves of companies and slower growth, they will continue to look for acquisitions to create value and maintain growth momentum. Valuations are expected to be lower than the highs of 2021 and 2022 due to interest rate uncertainties and capital market volatility."

Abhay Anand
Partner, Lead Advisory
Grant Thornton Bharat

The M&A market is adjusting, working out what the new normal is in terms of both activity levels and valuation metrics. The technology sector in India continues to dominate and constituted 30% of overall deal values in 2022.

Points of view from other subject-matter experts

Corporate governance, tax and regulatory matters

With the increasing number of GCCs, global investments in India, and Indian businesses going global, investors and stakeholders are expecting the highest standards of corporate governance, which include robust financial reporting, financial and business controls and financial audits, both external and internal.

Moreover, with the IPO and M&A opportunities for many tech companies in the coming years, companies should start thinking early to plan for robust financial reporting, including quarterly reporting and financial audits, and be IPO/M&A ready.

Abhishek Gupta
Partner, Assurance
Grant Thornton Bharat

Tech has blurred the boundaries for most businesses, and today companies have access to global markets without the need to have physical offices in different countries. Taxing jurisdictions are also realising that unless they revamp existing tax laws, international companies can exploit their local markets and consumers without paying their fair share of taxes.

Globally, several countries have taken initiatives to protect and increase their tax revenues. The OECD Pillar 1 rules are a step in this direction. Following the benchmark Wayfair decision in the USA, it became clear that the USA has given rights to the state to subject foreign corporations with sales tax solely based on economic nexus thresholds. The equalisation levy is one of the approaches that India has taken in this area.

Going forward, businesses catering to global consumers will need a robust tax compliance both in their home jurisdictions as well as in each of their customer jurisdictions. Physical presence in overseas locations is, therefore, no longer a minimum requirement for global tax compliance. Hence, tech companies will need to closely monitor their global operations and ensure that they are globally compliant with the respective tax regimes.

Lloyd Pinto
Partner, Tax
Grant Thornton Bharat

The technology sector is constantly changing and evolving, as is its nature, which makes it prone to various litigation issues due to a lack of clarity in regulations. One of the most debated issues was the characterisation of payments made for the acquisition of software licences from non-residents, which was finally settled with the landmark ruling delivered by the Apex Court. India, being an active member of the OECD (Organisation for Economic Co-operation and Development) and G20 nations, has been using the recommendations of the BEPS (base erosion and profit shifting) Action Plan to resolve existing tax challenges such as treaty shopping, permanent establishment and the implementation of multilateral instruments.

With increasing global trends around tax changes for tech companies, tech companies would therefore to closely monitor these changes and assess business impact and potential tax litigations.

Fatema Hunaid
Chartered Accountant
Bengaluru

Case studies and Grant Thornton Bharat's value proposition

Implementation of a comprehensive risk management framework for information security

Indian arm of a multinational corporation that focuses on technology for mobile and cloud networks.

Situation and problem statement

There was a need for a comprehensive framework in information security, covering multiple disciplines, lines of business, functions and geographies (more than 50 countries). The firm also needed enhanced governance and documentation of information security. There was a lack of appropriate scoping and comprehensive risk coverage. It needed a better internal audit facilitation and automation, as well as improved management visibility and reporting.

Our solutions

- We identified scope, processes and applicable ISO 27001 controls.
- A comprehensive and unified risk management framework for information security management system (ISMS) was established and maintained.
- Continuous risk assessment and management were carried out, along with a review of site-specific documentations.
- We facilitated annual internal and external audits.
- Levers of competence development, standards, automation and new ways of working were used to increase productivity, and a governance, risk and compliance (GRC) platform was adopted for ISO governance.

The impact and value addition

Given the client's global presence and multiple sites, hubs and employees in each country, the ISMS engagement had a wide scope for implementation and maintenance. The framework brought in standardisation with a systematic approach through GRC tools in managing information security objectives. The centralised framework for ISMS helped in managing, monitoring and reviewing information security policies from a single place. It helped in improving the overall security posture by aligning internal systems and processes in line with leading practices.

Supporting a leading data engineering and cloud consulting company for sale to a global analytics player

A leading technology consulting and services firm with expertise in big data, data engineering and analytics

Situation and problem statement

The company was contemplating growth and options including M&A. The founding team, which was mainly customer-facing, led the business, due to which the company was not fully prepared for the business sale process and was evaluating various options. Multiple entities across different geographies existed without a central database for financials and operations.

Our solutions

- The engagement entailed end-to-end support, from assisting the firm in gathering critical information to preparing for business, financial and other diligences to final closure, and support on transaction tax structuring.
- We developed a transaction strategy and worked with the team to find the right set of potential buyers and reached out to them to participate in the process.
- We ran a tight process, ensuring multiple offers, and led the negotiations with those buyers. We also managed due diligence and coordinated with all the parties involved in the transaction to get the deal closed efficiently.

The impact and value addition

Our extensive network and integrated team of sector and subject matter experts led by our lead advisory team and supported by teams from transaction tax and financial due diligence helped the client identify and collaborate with a suitable buyer for this important transaction and crystallise all its future business objectives. From a seller's perspective, it has become part of a larger global enterprise, which can provide it access to a range of new clients to highlight its capabilities and grow further. From a buyer's perspective, this fills in the gap in its portfolio of services in data engineering and big data along with a focus on the fintech industry.

Providing IPO advisory support covering financial reporting and transitioning to US GAAP and transaction tax support

A leading artificial intelligence global company with operations in India, Australia, USA, France and Singapore

Situation and problem statement

The company was preparing its financial statements under International Financial Reporting Standards (IFRS), but for the purpose of a US listing, its financials were required to be prepared under US Generally Accepted Accounting Principles (US GAAP) and, more importantly, be IPO -ready. It was also on an acquisition spree and had entered into multiple acquisitions during the last couple of years. Further, it also reorganised the group structure by redomiciling its operations in the USA, which led to complex modifications in its capitalisation table and share-based payment transactions. It wanted full support for its financial reporting requirements for the proposed IPO.

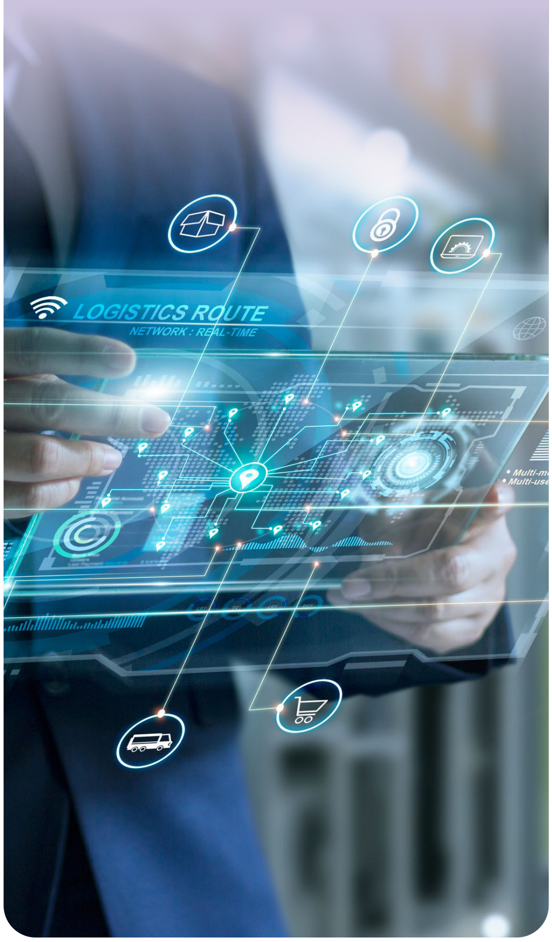
Our solutions

Our team provided transaction tax review of the company's legal entity structure and historic financial statements and provided hands-on support to the management and company, for transitioning to US GAAP, which included:

- Assistance in preparation of historical financial statements as per US GAAP and pro forma financial information
- Assistance in streamlining accounting policies and practices for acquisitions
- Assistance in preparation of key accounting position papers, considering US GAAP, Securities and Exchange Commission (SEC) guidelines, etc.

The impact and value addition

Our work helped the company to prepare its financials as per US GAAP and be IPO ready. Further, the company was able to simplify the financial preparation approach and methodology, which enabled it to prepare its financial statement in a timely manner.



Providing buy-side financial due diligence support on 15+ cross-border transactions and US tax compliance support

A global technology services player headquartered in India

Situation and problem statement

The company embarked on an aggressive inorganic journey to shore up its capabilities and expand to new geographies and wanted an integrated team to support financial due diligence on deals in various countries outside India, such as the USA and Europe.

Moreover, the company had many US legal entities and wanted a firm with integrated support for their US tax compliances, including return filings.

Our solutions

- We provided financial due diligence support on multiple deals (15+) over the span of three years, led by a tech sector experienced team across India and other geographies.
- We were able to put together an integrated US tax team and provided tax advisory support to the company's tax team on a regular basis

The impact and value addition

Our approach involved putting together a sector-focussed and global due diligence team, which resulted in a seamless, collaborative and timely cross-border delivery.

This integrated approach, as well as our deal-centric due diligence approach, provided support to the company in evaluating potential acquisitions, and close M&A deals. The company was able to file its US tax returns in a timely manner.

Providing robust internal audit support for enhanced governance, compliances and business operations

A USA-based technology company with global presence that deals with technology products and services

Situation and problem statement

The company had been on a spree of acquisitions over the years. With multiple acquisitions and spin-offs, different systems and inconsistent processes were a common occurrence across the group. With the phenomenal growth in its Indian business, robust internal audit was important.

There were also a number of regulatory compliances for their business in India which needed reviews. Further, various applications and critical business processes were controlled by global operations, and hence, global collaboration was necessary.

Our solutions

- An agile methodology was adopted to ensure the scope of the solution was more fluid, and the areas of internal audit were customised based on the problem statement of the stakeholders.
- We collaborated with the global audit team of the company to avoid duplication of reviews in India and to jointly assess the systems audit outcome.
- The global mobility services (GMS) and indirect tax (IDT) experts were looped in to support compliance and legal teams to ensure that the upcoming regulations were tracked by the company and adequate measures were timely adopted to meet the compliance requirements.
- Support was provided to the teams in carrying out the data transition and process integration reviews, and opportunities were suggested to optimise cost.

The impact and value addition

We put in place a robust internal audit system, and identified cost-saving opportunities, along with more robust tracking of regulatory compliances.

Providing integrated transaction advisory support for the merger of 2 leading tech services companies

A leading tech services company merging with another tech services company

Situation and problem statement

The transaction involved the merger of two listed companies and, therefore, had typical challenges in terms of timelines, relative evaluation of both the companies as well as various regulatory guidelines appliable for listed company mergers.

Our solutions

- We were able to put together sector-focused and multi-disciplinary teams across due diligence, valuation, tax and regulatory to provide transaction advisory support and present our recommendation to the Board of Directors for them to take a decision. We had a single point of contact with the client to coordinate seamlessly across the various service lines.

The impact and value addition

The work was completed within the timelines, and an integrated team of experts with knowledge of the tech sector enabled robust transaction advisory support to the company and the filing of their merger documents in accordance with the regulatory guidelines. The merged entity is now listed on the stock exchange in India

Providing financial advisory support to a cloud security start-up and a NASDAQ-listed cybersecurity company

A start-up specialised in cloud security

Situation and problem statement

The company, which was founded by a technocrat, needed support on the sale process. The company had a very lean team (mainly technology professionals) and had no CFO or other support roles.

Our solutions

- We provided end-to -end financial advisory support from the start of the sale process to deal closure.
- We also brought in a team of experts across accounting, advisory and tax to support the company at various stages of the deal.

The impact and value addition

The client was able to complete the M&A deal within the stipulated timelines and merge with a global leader in the cybersecurity space.

Enabling scale and global reach – Global Oracle ERP rollout across 6 countries and 10 entities

A leading fintech company in India, specialising in point-of-sale (POS) payment terminals and payment gateway solutions, supporting the last-mile retail payment transaction technology

Situation and problem statement

The company had been on an acquisition spree apart from growing on a massive scale organically. This brought up several challenges: (1) managing a heterogeneous mix of disparate accounting and supply chain systems of acquired entities, resulted in delays in financial consolidation and reporting; (2) loss of efficiency in operations due to disharmony in the processes of different entities; (3) lack of real-time visibility of key performance indicators (KPIs) due to data spread across different systems; and (4) excessive manual effort to carry out business-as-usual (BAU) work, due to lack of harmonised systems/processes/operations.

Our solutions

- We drove the standardisation of processes, reduced manual intervention, structured data-capturing capabilities and streamlined the statutory reporting across countries in the areas of finance and supply chain operations through a fast-tracked Oracle Fusion rollout transformation programme.
- We deployed the Oracle Fusion solutions across six countries in record three months' time. The deployment assured that every single localisation and taxation requirement was addressed via the deployment of a 'single source of truth' system. This was designed and deployed to make Oracle Fusion ERP future-ready and scalable for quick deployment of any new future acquisitions across different geographies. Based on this, we are further onboarding four newly acquired business entities to the Oracle Fusion ERP solution.

The impact and value addition

We were able to ensure harmonised processes across the finance and supply chain management (SCM) functions, achieve the best of system synergies, reduce manual efforts by seamless consolidation for all the entities, and streamline all the local taxation and statutory reporting solutions. We not only implemented the best transaction capturing and reporting solutions but also kept the design very fluid to make it scalable and cost effective for future acquisitions and subsequent rollouts.

Driving supply chain traceability for a large Indian conglomerate through blockchain – Forest to fashion

Viscose staple fibre business of a textile manufacturer

Situation and problem statement

Fibre traceability was required throughout the value chain. End-retail customers wanted to know the source of raw materials used in manufacturing, and business-to-business (B2B) customers wanted to monitor the movement and traceability of shipments. B2B customers also wanted to know who was involved in fulfilling orders and shipping the material at each stage of the manufacturing process. The company experienced counterfeiting in the supply chain, which impacted their reputation.

Our solutions

- We developed a solution to provide real-time transparency and traceability of the chain of custody (CoC) of raw materials to the end consumers/brands in a B2B supply chain ecosystem.
- The blockchain-based smart supply chain traceability solution provided features such as QR code generation, chain of custody to trace back the product to its sustainable source and dashboard for real-time traceability.

The impact and value addition

A real-time audit trail of the material movement through QR codes registered on a blockchain network allows supply chain players to take necessary actions on deviations found against industry standards due to the CoC. End B2B customers can easily monitor the timeline of orders and address delays and deviations in real time. Also, users can get an overview of the raw material inventory available for manufacturing.

Grant Thornton Bharat's Technology Sector Expertise

Trust us to deliver

We know the market

Our expertise in the tech ecosystem comprises large, middle, niche players and startups in the market.

Our priorities match

We deliver value with deep industry knowledge, financial and operational skill, and a comprehensive understanding of the unique challenges faced by tech companies.

Centralised points of contact mean fast delivery and captured synergies

We involve key relationship partners and subject-matter specialists who have the knowledge and authority to deploy resources, regardless of where they reside in the firm, geography or service line.

Global reach

Our member firms work with thousands of companies with international operations and regularly collaborate with other Grant Thornton member firms worldwide on cross-border needs. We will be ready for any global consideration you might need to address.

Grant Thornton Bharat's Technology Sector Expertise

Grant Thornton Bharat delivers the greatest value by collaborating across services including assurance, tax, transaction and advisory services, to create innovative and tailored solutions to resolve the clients' complex challenges.

Our experts team comprise of professionals who have deep technical capabilities and extensive industry expertise, having worked with large scale tech, media and telecom services players in India and globally.

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