

News monitored for: JM Financial

# Muted demand to stymie Q4 hopes of IT companies

**K V Kurmanath**  
Hyderabad

The fourth quarter of 2023-24 is not going to bring any good news for the Indian IT industry. Going by the global macro cues, the fourth quarter results are likely to reflect the continuation of recent soft demand trends.

There, however, is a piece of good news. A recovery in the US economy, which is a major source of revenues for the IT industry here, augurs well for 2024-25.

Analysts see signs of improvement in the global economy, macro indicators and strong deal wins in recent quarters translating into revenue growth acceleration in 2024-25.

Some others, however, feel that a weak exit to 2024-25 and a still inconducive demand environment could temper the initial guidance for 2024-25 for



**SOME RELIEF.** Likely Goldilocks phase in the US economy may bring the cheer back in 2024-25

most companies. Research firm Emkay Global Financial Services felt that sub-par growth would persist in the fourth quarter as muted demand trends continue on account of weak discretionary spending and cautious behaviour by clients, amid uncertain macros.

“Margins should remain steady despite weak revenue growth, as companies optimise costs and tighten discretionary spending. The expectations of slower and shallower rate cuts may

delay recovery for IT companies,” it said.

## DEAL WINS

“Mid-caps are again expected to outperform; we expect them to report sequential growth of 1-5 per cent compared to -2 per cent to +2 per cent (US dollar growth) for large-caps in our coverage. Deal wins are expected to remain steady in the fourth quarter,” it said.

It, however, felt that most of the companies

would register sequential improvement in their margins driven by better cost control, tightening discretionary spending, and easing supply-side pressures.

## TEPID DEMAND

Kumar Rakesh, an analyst with BNP Paribas Securities, echoes a similar view. He said that IT services demand continued to struggle with constrained discretionary demand as enterprises remain uncertain about the macro economic outlook.

Citing reports of the US economy entering a Goldilocks phase (a phase of sustainable economic growth, low unemployment, and controlled inflation), he felt that the enterprise sentiment might turn positive for tech spending.

Stating that the fourth quarter would witness beginning of a gradual recovery, the revenue growth for large-cap coverage of the

company would be around -1 per cent to 1 per cent.

“We see mid- and small-caps reporting 1-3 per cent quarter-on-quarter organic revenue growth (US dollar wise). For most of our coverage companies, we see year-on-year revenue growth to start recovering from the fourth quarter of 2024,” he said.

## WEAK START

Abhishek Kumar and Anuj Kotewar of JM Financial, said quarterly guidance by global peers point to a weak start to the year. They said Accenture’s commentary alluded to further tightening of IT budgets from January.

“We believe companies could miss the upper end of their fourth quarter guidance. We expect large-cap IT services players to report a modest -1.8 per cent to 1 per cent quarter-on-quarter revenue growth in the quarter,” they said.