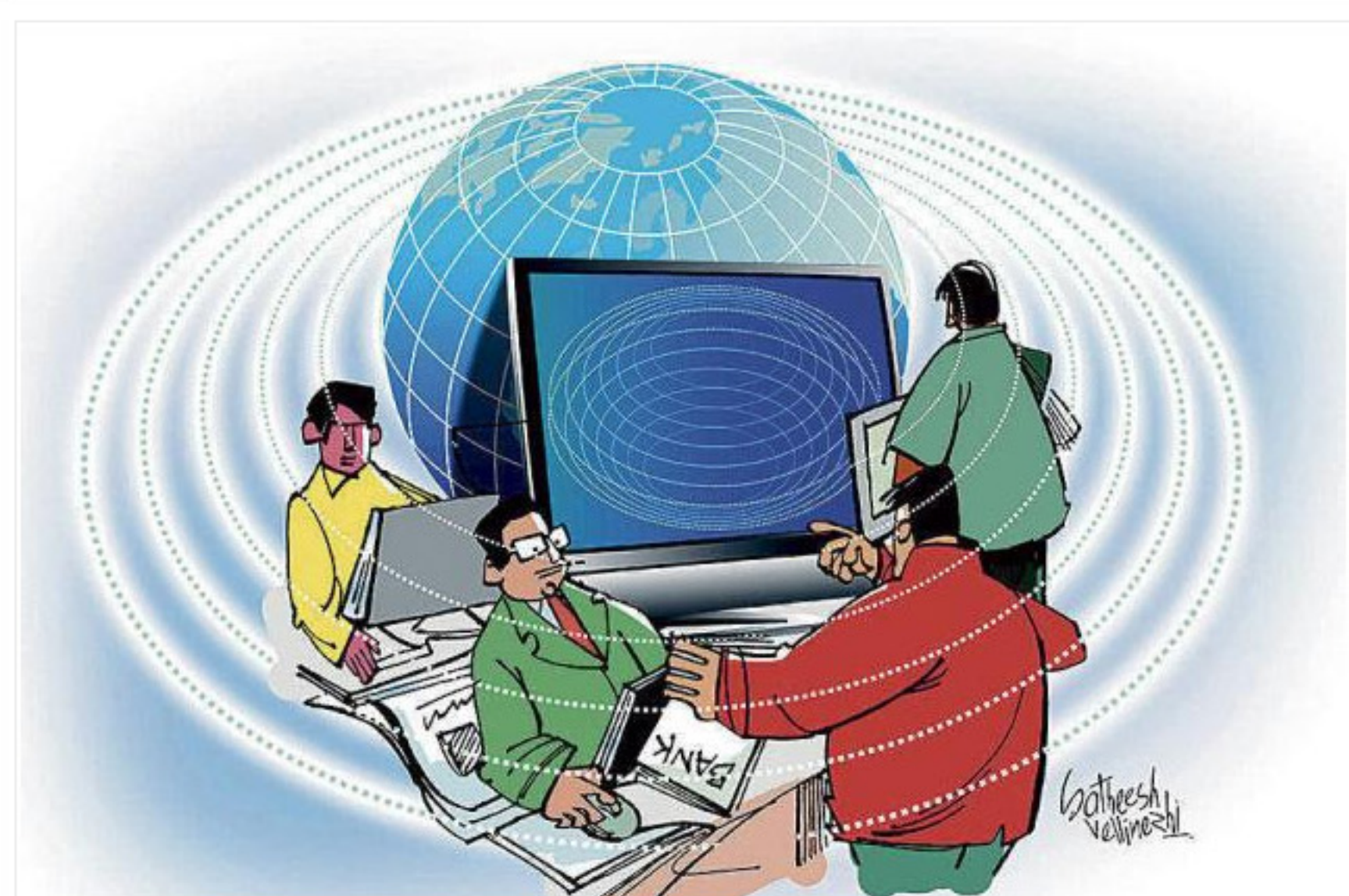


Banks, telcos likely to sustain domestic business for IT firms

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Govt may slow down spending due to impending general elections

MUMBAI, DEC. 24: Government IT spending may further slow down in calendar 2014 due to the impending general elections, a situation that does not augur well for the domestic business units of Indian software companies.

However, increased technology investments by banks, telecom operators and insurance companies are expected to sustain the India business for these companies, industry watchers said.

“I do not see a recovery possible in the India business for IT firms till the 2014 general elections are over. Not much momentum is expected till September-October next year,” said Ganesh Natarajan, Vice-Chairman and Chief Executive Officer of Zensar Technologies, adding, “there needs to be a strong recovery in sectors such as capital goods, manufacturing and retail for more IT spending in the country.” The writing on the wall is clear, as no major e-governance project has been dished out in the last three months. Once the model code of conduct comes into play with elections, which debars authorities from sanctioning grants and payments out of discretionary funds once elections are announced, the situation is expected to be grimmer for IT firms.

In a recent meeting with analysts, Tata Consultancy Services indicated that the current quarter would be a sluggish one for the India business on account of reduced Government spending in the run-up to elections.

If the same volatility continues for the next few quarters, the company would term it a trend, said Ankita Somani, sector analyst with Angel Broking.

\$6-billion market

The India business has been a challenging one for several quarters now, largely because of slow economic growth and what several analysts describe as the “policy paralysis” of the Centre.

The attractiveness of the \$70-billion Indian IT market has further taken a beating due to increased cost of operations, lags in decision making and low returns on investments. At present, the Government IT market is worth over \$6 billion, according to Gartner.

Sunil Manglore, Managing Director of CA Technologies India, is of the view that his company would see weakness in the India business 3-6 months later than the IT services companies. This is because the US-headquartered firm does not directly bid for e-governance projects, but instead works with implementation partners.

“One vertical (government) would slow down nine months from now, but we are confident of being able to make it up with growth from other verticals. Anticipating the slowdown in government business, we have increased focus on financial services and telecommunications in the last one year,” said Manglore.

Financial services

The financial services sector has the advantage of being relatively insulated by elections and changes in Government as the push for increased automation comes from the Reserve Bank of India, he added.

Hanuman Tripathi, CEO and Managing Director of Infracore Technologies, pointed out that about 1,000 small banks in India are still to be automated.

“The RBI has mandated that all banks should have core banking and connectivity infrastructure so that the entire financial inclusion story can be driven to the bottom of the pyramid. Plus, the new banking licences, which are expected to be given out in January, would be a multi-million dollar opportunity for IT companies,” he added.

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