

# Mid-size IT firms' over-reliance on clients a worry

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Most mid-size IT services companies in India are over-dependent on their clients for revenue. This, analysts believe, can make them vulnerable although, presently, they are witnessing a steady growth and attracting investors with their diverse services.

Most mid-caps rely on their top 10 clients for about 50 per cent of the revenues, unlike their large-cap peers, who secure a fifth of their revenues

from clients.

IT mid-cap stocks are riding high, giving credence to speculations around a potential bubble, with analysts terming their client concentration as the biggest area of concern.

"IT mid-caps have borne the brunt of changes in their top 10-20 client concentration in past. That said, Larsen & Toubro Infotech (LTI) and Mindtree have shown good growth in digital services," said Urmil Shah, assistant vice-president and research analyst

at IDBI Securities.

Mid-caps have suffered in the past owing to changes in client requirements, and experts have been raising concern since then.

According to Shah, mid-caps' business models and their services such as engineering, research and development and strong line of digital services have been attracting investors.

LTI is preferred because of its expertise in digital solutions, which accounts for 33 per cent of its overall revenues.

## REVENUE EARNED

Client contribution as % of revenue (according to last quarterly results)

|           |      |
|-----------|------|
| NIIT Tech | 42.0 |
| LTI       | 41.2 |
| Hexaware  | 52.9 |
| LTI       | 52.1 |
| Cyient    | 54.0 |

Source: Companies' websites

NIIT Technologies has been in the news following a management rejig as well as a strong



performance over the past few quarters, especially in travel and transportation services.

The company saw some revenue decline in Q2, last year, after a large travel client scaled down their requirements.

"Cyient has been a strong pick for some time due to its niche offer as of now. Particularly for its aerospace and communications business segments, the outlook has been quite significant," said Harit Shah, research analyst at Reliance Securities. He added that Sonata Software remains another company to watch out for because of their focus on software platforms in retail and travel.

"Top client concentration and their contribution to total revenue have been a major risk for mid-cap IT companies. Also, given that a lot of their revenues stem from on-site operations, in the current political scenario it might not be the most sustainable option," said an analyst who did not wish to be quoted.

On the other hand, these businesses do tend to have a

small scale that allows them to implement technological changes much faster than their big brothers, noted another analyst.

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Overall, when it comes to mid-caps, analysts are leaning towards niche products and solutions as a metric to identify players. While they caution against blind faith, there is a need for them to diversify their client portfolio to maintain the upward graph.