

## TECHNOLOGY & INTERNET

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### ISG Q4CY21 earnings call takeaways

- Demand for IT services strong though significant headwinds also present in the form of high attrition and supply chain disruptions
- In CY21, BFSI saw significant traction among verticals and APAC among geographies
- ISG's CY22 guidance ascribes 20% YoY growth to the as-a-service market and just 5.1% to managed services

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**Robust demand:** ISG's conference call today focused on global trends emerging in the IT industry, including tailwinds such as strong demand, a robust deal pipeline and increased M&A traction, as well as headwinds of wage inflation, the great resignation, supply chain disruptions and Covid impact. Record-high ACV was seen in managed services (US\$ 8.6bn) and as-a-service (US\$ 14bn) in CY21. Combined market ACV stood at US\$ 23bn, up 30% YoY. The emergence of small and mid-sized deals is another key trend, resulting from enterprises moving toward fast-paced transformation.

**Attrition to persist:** ISG estimates that attrition will persist in the near-to-mid-term but should normalise within the next couple of quarters. Currently, the industry average attrition rate is over 20%. Wage inflation has occurred because of this high churn. Both managed services and T&M (time & material) are seeing wage inflation. In managed services, rates are steady for existing contracts while in T&M, rates have risen 4-7% for in-demand skills. Providers are recruiting more freshers and ramping up training. Mass hiring and subcontracting have also increased.

**BFSI leads among verticals:** BFSI demand remains robust in both managed services and as-a-service segments. The combined market ACV for BFSI rose 30% in CY21 while as-a-service grew 38%. Other verticals with high combined market ACV growth are travel & hospitality and retail, CPG & manufacturing, up 36% and 38% respectively. APAC's combined market ACV grew the most among geographies at 44% YoY. America grew by 27%, followed by EMEA at 23%. The DACH region was affected by supply chain disruptions whereas Eastern Europe saw record high ACV.

**Strong outlook for as-a-service market:** ISG has guided for 20% YoY growth for the as-a-service market in CY22. It expects managed services to grow 5.1% which looks subdued and is below the CY21 estimate (+10.1% YoY in Q3CY21). However, this is still 2.5x the historical industry average growth rate over CY10-CY20.

**Emerging trends in manufacturing:** The top 5 trends on C-level agendas are IoT and cybersecurity, ESG, monetisation of software and services, M&A for new skills and capabilities, and building a future-ready supply chain.

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LTI IN	7,174	8,270	BUY
MPHL IN	3,207	3,650	HOLD
MTCL IN	4,584	3,540	SELL
PSYS IN	4,492	4,240	HOLD
TCS IN	3,916	4,720	BUY
TECHM IN	1,737	1,970	BUY
WPRO IN	694	850	BUY

Price & Target in Rupees | Price as of 11 Jan 2022



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