

Mid-size IT firms' overdependence on clients a worry

ROMITA MAJUMDAR
 Mumbai, 23 March

Most mid-size IT services companies in India are overdependent 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.

Midcaps have suffered in the past owing to changes in client requirements, and experts having 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 dig-

REVENUE EARNED

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

NIIT Tech	42.0
LTS	41.2
Hexaware	52.9
LTI	52.1
Cyient	54.0

Source: Companies' websites

ital 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.

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.