

IT firms see spike in sub-contracting costs

Dearth of niche in-house talent drives hiring of external professionals

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As domestic IT players seek to deliver new-generation services, they are looking beyond their in-house talent pool and are actively hiring sub-contractors and external professionals. They are willing to pay more for these sub-contractors, as the paucity of qualified employees with new-age technical skill set gets acute.

Usually, most of these recruitments pertain to on-site (or overseas) locations, though hiring of external professionals happens for domestic operations, too. Issues related to H-1B visas in the US are also leading to an increase in such hiring.

Consider this: for TCS and

Infosys, sub-contracting costs increased 25.6 per cent and 38.9 per cent, respectively, in the first nine months of FY19 compared with the same period in FY18, while their employee expenses rose only 18 per cent and 15.3 per cent, respectively.

For mid-tier players such as Mindtree and Zensar Technologies, sub-contracting costs rose by a whopping 59.3 per cent and 69.5 per cent, respectively, even as their employee costs increased by less than half of those levels.

Talent, visa woes

Given that many new digital projects tend to be short-term or one-off in nature, it also helps IT firms juggle talent based on client requirements.

Banking on external professionals

	Apr-Dec		Change (%)	Apr-Dec		Change (%)
	FY19	FY18		FY19	FY18	
TCS	8,268	6,585	25.6	58,067	49,213	18.0
Infosys	4,432	3,191	38.9	33,242	28,839	15.3
Mindtree	381	239	59.3	3,271	2,634	24.2
Zensar Technologies	471	278	69.5	1,584	1,268	24.9
Persistent Systems	263	231	13.9	1,439	1,383	4.0
Tech Mahindra	3,176	2,824	12.5	13,201	12,479	5.8
Wipro	7,079	6,329	11.8	22,239	20,246	9.8
HCL Tech	7,139	6,474	10.3	21,570	18,391	17.3

"Sub-contracting costs have risen due to a combination of issues including the difficulty in obtaining H-1B visas for sending employees from India and the crunch for local talent in the US," says Ashish Chopra, Senior Group VP and IT Analyst, Motilal Oswal Financial Services.

"While the need for niche skills can be met by hiring full-time employees, it may

take more time, thereby causing a delay in the commencement of a project. Hence, companies take recourse to sub-contractors to execute the projects in a timely manner."

The increase in digital deals won by Indian IT vendors has accentuated the trend. "Digital contracts require on-site delivery and domain-specific talent. Also, the size of the di-

gital contracts is rising and so is the demand for talent," says Amit Chandra, Analyst-IT, HDFC Securities. "Digital as a percentage of revenue for Indian IT firms is around 30 per cent and growing at 32 per cent year on year. Most of the large deals are in the transition stage and sub-contracting is the only option to bridge the talent gap and for timely delivery."

Harit Shah, Senior Research Analyst, Reliance Securities, adds: "Shortage of trained digital workers is a bigger driver for hiring more sub-contractors than the visa issue. Digital projects — whether one-off or slightly long term — need to be adequately staffed with skilled resources."

Expensive recruits

Though hiring consultants or sub-contractors for a short

duration would have the desirable effect of not adding to the employee count, it does not optimise costs for software vendors. Also, given that the consultants/sub-contractors bring niche skills to the table, their price tags are higher.

Chandra throws more light on this aspect: "There is a severe talent crunch in the US due to a huge demand for new-age programmers. There are many vacant positions and companies are hiring a lot of freelance programmers to fulfil the demand. The cost is between \$200,000-300,000, which is way higher than the average size of \$90,000-120,000 for a programmer on an H-1B Visa," he says. He adds, "Sub-contracting cost as a percentage of sales has increased by 200-250 basis points and has impacted margins of IT firms."