Coronavirus Scare: IT Services Firms Draw Business Exigency Plans

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- **With uncertainties around growth outlook, most companies are likely to go slow on their payback plans to shareholders**

In the wake of coronavirus outbreak, most IT services firms have invoked their exigency plans, which include adoption of practices like work from home, virtual meetings and preparing strategies to conserve cash.

As social distancing emerges as the most viable option to contain the spread of this virus, IT companies have started chalking out plans in case the fallout of this pandemic lingers beyond two quarters.

"The current business continuity plans include providing means for extended work from home arrangements, conducting as many meetings online, and limiting travel. Measures are also being taken to protect existing cash reserves of the companies," said Hansa Iyengar, senior analyst at global consulting firm Omdia.

Conserving cash is one of the widely adopted ways by any companies during a demand slowdown. Experts are of the opinion that most IT services firm are preparing themselves for long haul, given the uncertainties arising from the global pandemic, coupled with upcoming US elections in the second
Half of this year.

"The timing of COVID-19 outbreak and its associated impact have stalled the first half catalysts and by the time it passes, we will be in the midst of pre-existing second half challenges, such as the US elections, post-Brexit trade negotiations among others," said Peter Bendor-Samuel, founder and chief executive officer of outsourcing advisory firm Everest Group. He also said IT companies would face severe pricing pressure in the current year even if situation arising from the coronavirus outbreak was contained.

According to experts, given this year (2020) is likely to see both demand slowdown and pricing pressure, most IT firms are looking at cash conservation measures.

Traditionally, the top four IT firms — Tata Consultancy Services, Infosys, HCL Technologies and Wipro — have well laid-out capital allocation policy, which includes giving back most free cash flow to investors. In the past two years, all four IT firms had conducted big buyback programmes, giving back excess cash reserve to their shareholders. Even after this payout, both TCS and Infosys have more than $3 billion of cash reserve each.

With uncertainties around growth outlook, most companies are likely to go slow on their payback plans to shareholders. Some of the large investment plans by the IT firms are expected to take a backseat in the near future.

Amid all the gloom, some analysts also see a silver lining for the industry. "While mega deals will be less, secular business drivers (deals relating to modernization in new technology areas) will make a comeback soon after the threat of COVID-19 subsides. A prepared service provider, with ample resources to handle irregular pent-up demand, will emerge as a big market share gainer this year," Bendor-Samuel added.

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