



Engineering Service Providers & ISVs

Q4 2020 Analysis

Pareekh Jain

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Agenda



Q4 2020 Analysis

- Indian Engineering Service Providers
- European Engineering Service Providers
- Global Engineering ISVs

Revenue and growth of Indian Engineering Service Providers in Q4 2020



Q4 2020			
Service Provider	Q4 Revenue (Million)	YoY Growth	QoQ Growth
Persistent	USD 146.15	12.92%	7.39%
HCL ERS	USD 405	-4.64%	2.79%
LTTS	USD 190.1	-4.62%	6.80%
Cyient	USD 141.4	-8.89%	4.74%
Tata Elxsi	Rupees 4771	12.67%	10.91%
KPIT	USD 69.72	-9.31%	6.74%

Note: TCS, Wipro, Infosys, Tech Mahindra, QuEST Global, Tata Technologies, Cognizant, and Global Logic will also make in the list of India-centric ESP with quarterly revenue > USD 50 Million. Their financial details of engineering business are not available.

Summary of engineering services landscape for Indian providers



Summary of Indian engineering service providers' industry wise growth trends based on three quarters in FY 2021 and discussion with stakeholders.

- The YoY revenue gap for the Indian engineering service providers is decreasing. In Q2, KPIT and Cyient have observed negative double digital revenue growth (YoY basis) whereas in Q3, none of the service provider has observed double digital revenue growth (YoY basis)
- Persistent and Tata Elxsi have observed 10%+ YoY revenue growth in Q3 which is remarkable given the COVID-19 situation. For others, the negative growth rate has reduced significantly in this quarter, depicting that they are in a path of recovery from COVID-19 situation
- Large engineering deals are back as Marelli awarded multi-year global automotive software engineering contract to Wipro in Q2 FY 2021, LTTTS won \$100M contract from global oil & gas firm in Q3 FY 2021
- Software product engineering (platform engineering, cloud, cybersecurity) and targeting strategic areas of any vertical (for example, connected car, customer experience management in automotive) is the key for YoY positive growth for the providers

Bottom Line: The deal signing and pipeline is encouraging but the overall annual growth for FY 21 will possibly have a huge variation i.e. +10% to – 10% for the Indian engineering service providers.

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Revenue and growth of European Engineering Service Providers in Q4 2020



Q4 2020			
Service Provider	Q4 Revenue (Million)	YoY Growth	QoQ Growth
EPAM	USD 723.5	14%	11%
AFRY (ÅF Pöyry)	SEK 2233	-9%	24%
TietoEVRY	EUR 36	-8%	9%
Etteplan	EUR 70.295	-2%	27%
SII Group	EUR 169.39	-2%	10%
Semcon	SEK 401	-18%	-20%
Alten	EUR 567.3	-17%	8%
Bertrandt	EUR 201.741	-23.4%	-1%
Sogclair	EUR 28.2	-45%	8%

Revenue calculation: Alten, AKKA, EDAG, EPAM, Etteplan, Semcon, and Sogclair - Entire enterprise revenue; TietoEvry - Product Development Services; AFRY - Industrial & Digital solution and Digital Process Industries

Summary of engineering services landscape for European providers



Summary of engineering service providers' industry wise growth trends based on Q4 2020 results and discussion with stakeholders.

- The overall YoY and QoQ growth of the providers varies widely (with a range of around 50%) in which most of the providers (except Bertradt & Semcon) have registered negative YoY growth but positive QoQ growth
- Only EPAM has registered both YoY and QoQ positive growth and all the other providers have registered negative YoY growth, depicting that the recovery is still going on
- Sogclair which is primarily dependent on automobile and aerospace have suffered the most as it observed maximum YoY contraction (-45%). It also reduced workforce by 30% and closed the Morocco subsidiary
- According to Alten commentary, "The health crisis has strongly impacted the countries exposed to automotive and civil aerospace activities (FR/GE/UK/SW/US), whose contribution to revenue decreased from 34% in 2019 to 25% at the beginning of 2021. The activity only resumed very gradually at the end of Q4 2020."

Bottom Line:

European providers have a mixed recovery scenario. Though some of the service providers have almost arrived to/crossed the pre-pandemic level, others have a long way to go. Too much dependence on industrial, aerospace, and automotive sectors are the primary reasons for the double digit YoY negative growth for Alten, Bertrandt, Semcon, and Sogclair.

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Revenue and growth of Engineering ISVs in Q4 2020



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Service Provider	Q4 Revenue (Million)	YoY Growth	QoQ Growth
Dassault Systèmes	EUR 1219.3	3%	18%
Siemens Digital Software	EUR 1004	-1%	-4%
Autodesk	USD 1039.2	16%	9%
Hexagon AB	EUR 1038	-2.0%	10%
Ansys	USD 623.7	28%	70%
PTC	USD 429	21%	10%

Note: Engineering ISVs (CAD, CAE, PLM, MES) which have annual revenue > USD 1 Billion. AVEVA after OSISoft acquisition will also cross \$1 Billion in revenue.

Summary of engineering ISV landscape



- Most of the ISVs have arrived to the pre-pandemic level and three vendors (Autodesk, Ansys, PTC) have registered double-digit YoY growth.
- Siemens only clocked low single digit both YoY and QoQ growth in the software business. According to Siemens, it observed "Strong order growth in the automation businesses, including double-digit growth in China and Germany. Order intake in the software business below the strong Q1 FY 2020, which included a number of large contract wins; reported orders came in lower due mainly to negative currency translation effects"
- PTC registered 21% YoY growth and some of the key geography-specific observations are: double-digit ARR growth in the Americas, second quarter in a row of mid-teen ARR growth (CC) in APAC & rebound of European region
- Ansys has a stellar quarter with 28% YoY growth and 70% QoQ growth due to a robust performance: strong product uptake, leveraging M&A, and strategic R&D investment among others
- For Autodesk, the percentage of direct revenue and the overall subscription revenue are the highest among the last eight quarters

Bottom Line:

ISV revenue growth is the first indicator that the market is recovering with a next leg of rally from service providers. There is a good sign that Europe is recovering well from the pandemic and APAC is observing good growth prospects. We believe that in the next quarter all the ISVs will observe positive YoY growth.

Thank you



Pareekh Jain

Founder Pareekh Consulting &
EIIRTrend.com, Bangalore

13th floor, M2 Block,
Manyata Embassy Business Park, Bengaluru

E: pareekh@pareekh.com

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