

Strong Rupee clouds outlook for IT firms

Bangalore: India's top IT services companies are set to ring in robust quarterly profits aided by strong demand from western clients, but a rising rupee is seen crimping profit margins for the export-driven sector in the second half of the year.

Some of the leading companies have boosted hiring and given pay rises of up to 20% to cope with rising demand and stem poaching of employees, putting pressure on their profit margins.

"We expect good volume growth," said Mahesh Patil, head of equities, domestic assets at Birla Sun Life Asset Management. "We have seen orders coming in. IT spending has also increased compared to the low base of last year. Things are looking much better. But the rising rupee is something to watch out for," Patil added.

Analysts have pegged the rise in July-September profits between 11% and 23% for the top three outsourcing companies - TCS, Infosys and Wipro. Revenue at the companies, which manage computer networks and maintain IT operations for many Fortune 500 companies, are seen growing between 15% and 22% from a year earlier, driven by a revival in tech spending.

The rupee rose last week to its highest against the dollar in 25 months, aided by hefty foreign fund inflows.



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The move is bad news for India's \$60-billion outsourcing sector, which draws more than half its revenue from the US. A separate Reuters poll last week forecast the rupee at 44.80 per dollar at end-December. It now trades at 44.40.

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The companies are concerned about what they fear are "protectionist measures" by the US, which include a new immigration bill that will raise the cost of work visas and a ban by Ohio on offshoring government work.

"The US will outsource as it makes business sense. Some bit of the outsourcing business will be affected but not the large mass of operation," said Rakesh Rawal, CEO of private wealth management at Anand Rathi Financial Services.

"Contracts and customers will keep getting added. I do not see too much of a challenge there. The bigger risk is contraction of margins because of dollar depreciation."

Infosys could raise its outlook for dollar revenue growth to 21-24% for this fiscal, brokerages said, from 19-21% forecast in July.

Bangalore-based Infosys, which counts British telecoms firm BT Plc and Goldman Sachs as its clients, will still see a margin expansion of 100 to 200 basis points in the second quarter, analysts said. Shares of Infosys, valued at about \$39 billion, have risen 18% this year and Tata Consultancy is up about 27%, more than a nearly 17% rise in the sector index. "The sector is slightly overvalued. From these levels, chances of the shares coming off is higher than them adding on further value," said Rawal of Anand Rathi Financial Services. REUTERS