

OUTLOOK FOR NEXT 2 QUARTERS WEAK But Gartner forecasts a 4.8% growth in global IT services for 2017 compared with an estimated 3.9% in 2016

IT Cos may Raise a Cheer with Global Demand Pickup in 2017

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ET Intelligence Group: Indian software exporters may see pickup in demand in 2017 following a gradual revival in Europe, a sustained momentum in UK post Brexit, and expectations of US demand coming on track after the Presidential elections next week.

Gartner recently forecasted 4.8% growth in global IT services for 2017 compared with an estimated 3.9% in 2016. This may offer some solace to investors who are staring at another two quarters of slack performance by top IT exporters following an unconventionally dull September quarter.

A sample of top five Indian IT exporters reported a mere 1.4% sequential growth in the dollar revenue in the September quarter due to delay in winning long term, transformational deals. This was much lower than 3.3% growth in the previous quarter. In addition, the deceleration in

(Figures in \$ million)	Sep' 2016	QoQ % change	P/E ratio*
TCS	4,374	0.3	18.2
Infosys	2,587	3.4	16.1
Wipro	1,916	-0.8	13.0
HCL Tech	1,722	1.8	13.8
Tech Mahindra	1,072	4.0	13.8
Top 5 Total	11,672	1.3	-

*As on November 1, 2016; Source: Company data, BSE, ETW

growth was unusual because historically, IT firms have reported better growth in the September quarter. The sample included Tata Consultancy Services (TCS), Infosys, Wipro, HCL Technologies, and Tech Mahindra in the order of their quarterly revenue.

In rupee terms, the sample's revenue rose by 1.4% sequentially in the second quarter of the current fiscal com-

pared with 2.3% growth in the prior quarter. While the topline was under pressure, companies such as TCS and Infosys reported 80-100 basis points improvement in the operating margin (EBIT margin) sequentially due to better cost management. This also led to 40 basis points expansion in the sample's operating margin.

The remaining two quarters of FY17

are expected to be dull as historically this period consists of holidays and revision of IT budgets by clients. However, during a press conference following the quarterly results announcement in October, TCS CEO and MD N Chandrasekaran expressed hope of a better performance in the December quarter.

The next fiscal appears to have a better demand outlook according to the forecast by technology research agency Gartner. It expects global IT expenditure (including IT services) to increase by 2.9% in 2017 compared with an anticipated fall of 0.3% in 2016.

Gartner expects demand to normalise in the US, a major market. "Trends have shown that IT spending in the US is not dependent on presidential leadership, so neither candidate should have a significant impact on IT spending in the near term," it mentioned in a report.

This augurs well for Indian IT sector and may support valuations of IT stocks in the medium term.

