BFSI commentary, large deal wins to drive outlook for IT companies

Cross-currency movements expected to help Indian firms deliver strong growth in Q4FY18

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Mumbai, 11 April

Slow banking, financial services and insurance (BFSI) revenues, reduced headcount growth, and an urgency to pick digital sales will be the key areas analysts will watch as Indian information technology (IT) services majors gear up for Q4 earnings starting with Infosys on Friday.

Even though January-March tends to be a seasonally weak quarter, cross-currency movement, especially a weakening US Dollar against most major currencies, is expected to benefit most Indian IT players though mid-caps are expected to outperform the large players. According to analysts, indications of an improvement in IT spending by clients are also expected to boost the confidence of the service providers giving them a better visibility for FY19.

Gartner in its latest report had predicted worldwide IT spending to a total $3.7 trillion in 2018, an increase of 6.2 per cent over the previous year, the highest annual growth rate the research and analyst firm had forecast since 2007.

However, despite indication of an improvement in the overall demand environment, the softness in demand in the banking and financial services segment is still visible.

"First, what we are following is, whether the cautious upward movement of the two previous quarters will be sustained. Besides, the guidance as to how the new style of engagement, especially around digital and automation is impacting decision making," said Tom Reuner, managing partner at HfS Research. He said the research firm would watch the headcount numbers of these companies, especially to see if the indicators around the reduction of headcounts are broadening further and are becoming a more secular trend. Most of the IT majors have drastically cut down hiring over the past year, even as they are slowly increasing their local hiring in the US.

In terms of individual companies, the March quarter will mark the completion of almost a quarter for Salil Parekh as the chief executive officer (CEO) and managing director of Infosys. Analysts expect some clarity from Parekh about the new strategy and growth direction given almost six months of absolute turmoil that the IT giant's management has witnessed.

Analysts however do not expect any radical changes to the management strategy at Infosys, which was unveiled during the regime of previous CEO Vishal Sikka. "Greatly emphasised offerings of the previous management (such as platforms) may undergo tweak in their positioning to emphasise industry expertise in addition to technology capability. Also, Infosys may seek to use products/platforms/solutions to complement and strengthen services rather than see this as a stand-alone unit," equity analyst firm J P Morgan said.

Besides, analysts are also awaiting to see Infosys's performance around large deal wins, especially in the BFS space, given that the Bengaluru-headquartered company looked positive on that front in the previous quarter as well. Banking and financial services (not including insurance) accounts for 26 per cent of Infosys's revenues.

TECH-TONIC SHIFTS

- Analysts are eyeing Infosys' large deal wins, especially in the banking and financial services (BFS) space
- Globally, IT spending is expected to reach $3.7 trillion in 2018, according to research firm Gartner
- Major IT companies have cut down hiring over the past year, even as they are slowly increasing local hiring in the US
- Indications of an improvement in IT spending by clients are expected to boost confidence of service providers

TCS, on the other hand, has said BFSI will remain slow. "We forecast 1.2 per cent quarter-on quarter constant currency revenue growth for Q4 as TCS continues to remain cautious on BFS. But we are confident that retail (vertical) will do well," said analysts at IIFL.

Wipro has had fewer hiccups on the BFSI front with 4.2 per cent compounded quarterly growth rate (CQGR) in the vertical over the past year. "The management indicated bottoming out of this vertical as Wipro lost a significant amount of $125 million in terms of its annualised run-rate and it expects growth to pick up," said a Nirmal Bang report. "Leaving aside uncertainties around Affordable Care Act, it indicated that Wipro is seeing a good growth momentum in other parts of this vertical," the report added.

Analysts, however, will watch out for the company's commentary on their manufacturing vertical as well as renewal of some European telecommunications contracts.

At the end, Tech Mahindra's commentary on telecom revenue is expected to bring in some much needed relief for the company even as enterprise vertical continues to show robust growth. IIFL noted that commentary on intellectual property deals signed in the last quarter, outlook on the BFSI and manufacturing (which has remained consistent YoY) and telecom recovery will be the key metrics to watch for Tech Mahindra.