

That's IT! Cos Say Books to be Better this Quarter

After a disastrous March quarter, big IT sees currency tailwinds in Q1

Anirban Sen & Jochelle Mendonca

Bengaluru | Mumbai: After a disastrous show in the March quarter that spooked investors, India's top software firms led by Tata Consultancy Services (TCS) and Infosys will be looking to post robust numbers during the seasonally strong April-June period, aided in slightly by currency tailwinds, according to top brokerages tracking India's \$146-billion information technology sector.

Despite Tech Mahindra's surprise profit warning that led to investors pulling the company's stock down by 7% on Monday, analysts on an average expect other top firms to put up a much-improved show in the June quarter, when clients typically ramp up technology budgets.

TCS is widely expected to lead the earnings pack with sequential revenue growth of about 4% and Infosys is forecast to report an improved showing. Wipro has already warned of a slow start to the year, and analysts said the company would find it hard to regain momentum during the rest of the year.

Riding Into the Light

3% Sequential revenue growth expected from Infosys and HCL Technologies

Negative **0.5%** and positive **1%**
Expected range of guided revenue growth from Wipro

3.4% Cognizant forecast for sequential revenue expansion in Jun qtr

\$146b India's IT sector

ICICI SECURITIES ESTIMATES

2.6% Revenue growth in \$ of the top five Indian IT vendors from previous quarter

3% Expected Q-o-Q revenue growth (Excluding TechM)

7% Expected Y-o-Y revenue growth (Excluding TechM)

7.6% Revenue growth in \$ of the top five Indian IT vendors from a year ago



ICICI Securities estimates the revenue of the top five Indian IT vendors to grow 2.6% from the previous quarter and 7.6% from a year earlier in US dollars. "Excluding Tech Mahindra, we expect the revenue growth to be 3% Q-o-Q and 7% Y-o-Y. This is broadly in line with the Q-o-Q growth of 2.8% and 3.4% for the top four vendors in Q1 of FY14 and FY15, respectively," analyst Kuldeep Koul wrote in a report.

On an average, Infosys and HCL Technologies are expected to post sequential revenue growth of about 3%, while Wipro has guided its revenue growth to range between a negative 0.5% and positive 1% on a constant currency basis. US-based Cognizant, which has most of its

2,17,000-odd employees in India, has forecast a 3.4% sequential revenue expansion for the June quarter.

While Accenture's stellar performance last week will pacify nervous investors, experts cautioned that it does not automatically guarantee a better quarter for India's top software services firms, given their divergent performances in recent quarters.

"The usual buzz of the June quarter is definitely missing this time—I don't think we should expect any blockbuster numbers, given that

there haven't been too many large deal signings over the last few quarters, and also clients in general have been tight with budgets," said an India-based analyst at a top multinational brokerage. During the March quarter, the likes of Infosys, TCS and Wipro posted their worst quarterly results in the past five years, hurt mainly by cross-currency fluctuations. Unlike the March quarter, however, companies are expecting a small lift from currency fluctuations, given the rupee's weakness against the dollar. Since these companies get most of their revenue from exports, a stronger dollar means more revenue in rupees.

During the April-June period, the rupee depreciated around 2.2% on a quarter closing basis.

Experts also pointed out that some of the initiatives taken by companies like Infosys to improve client mining may take a while to reflect in actual numbers. "At Infosys, revenue from an average top-10 account has not increased in nearly two years. Among Indian IT, we believe only TCS (to a lesser extent, TechM) has displayed an ability to mine accounts consistently. Infosys' recent initiatives (Lodestone Consultants at top-200 and oversight on top-15 by CEO's office) indicate that focus is increasing," said Sandeep Muthanagi of IIFL Institutional Equities in a June 17 note. However, as seen in case of firms such as Wipro, sales initiatives alone may not guarantee account mining, he said.

TCS is widely expected to lead the earnings pack with sequential revenue growth of about 4%