

St's confident of long-term IT growth story

Ranjit Shinde

ET INTELLIGENCE GROUP

TOP IT stocks have remained more or less stable despite the volatility in the broader market. This is on account of better performance by these companies in the September quarter and their improved guidance for future quarters. However, analysts reckon that current valuations fully reflect this optimism and fresh purchase is advisable only on declines. In the past one month, which encompassed the quarterly results season, the benchmarks, including the Sensex and the Nifty, dropped by 3%. In contrast, stocks of TCS and Wipro gained nearly 5% on bourses whereas Infosys and HCL Technologies dropped just a tad 1-1.5%.

The stable performance of top IT counters reflects renewed confidence of investors in the long-term IT growth story. "We have seen some stability in these stocks, after the companies indicated that business conditions are improving. The Street feels that things no more look that bad and the worst is behind us," says Dipen Shah, Sr VP, Kotak Securities.

The global economic slowdown has eroded the sequential growth rate for the top IT deck from 6-8% two years ago to just over 1-3%. However, a positive outcome is that it has made their operations more efficient. Thus,



even though there was a deceleration in topline growth, companies now have slightly better operating margins.

Higher component offshoring in the global delivery model and rationalisation of human resources resulting into higher employee utilisation are the

key drivers behind improved efficiency. This also means, IT companies are more than ready to take advantage of the next phase of all round recovery. "While coming out of the recession, more clients would rely on outsourcing to increase value out of every dollar in IT spends," Mr Shah feels. However, the extent of this readiness would differ depending upon the past moves of these companies. For instance, TCS, Wipro, and HCL Tech undertook key acquisitions to strengthen their existing set of deliverables over the past one year. This is likely to help these companies register higher volume growth.

Despite this, analysts feel that Infosys would not see much of a change in the premium its valuations get over its peers. According to RBS' IT analyst Pankaj Kapoor, Infosys has been maintaining superior margins irrespective of market conditions. "Infy's valuations reflect its strong operating margins. Also, it is sitting on nearly \$3 billion of cash, which can be utilised to take on any organic opportunities," he says. Mr Kapoor feels that Infosys is cautious while acquiring companies and the company's strong cash base is not of much concern since Infosys can put it for a prudent use.

ranjit.shinde@timesgroup.com