

Worst may be over for major Indian IT firms

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New Delhi/Mumbai, 27 October

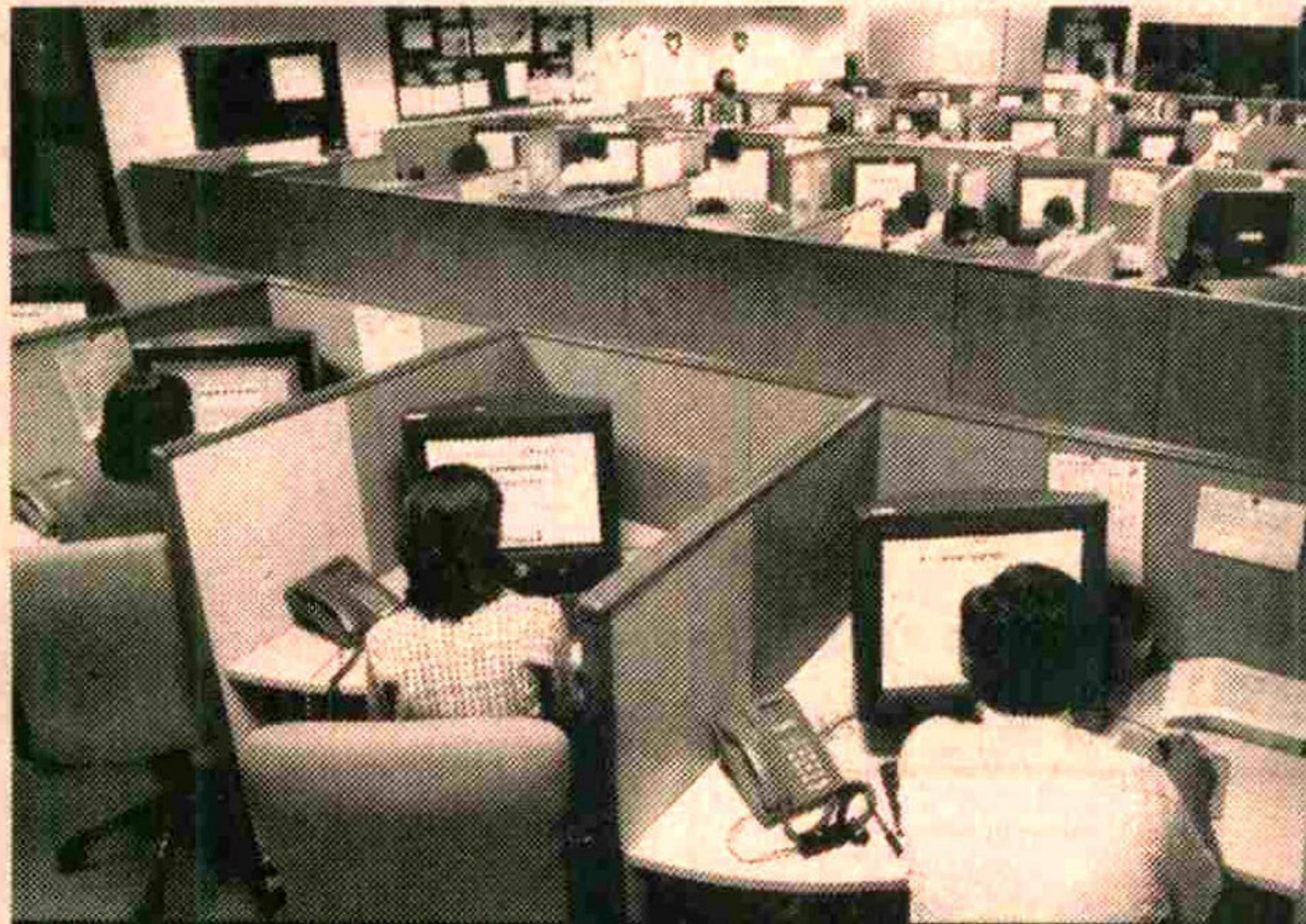
Notwithstanding the growing concern over an appreciating Indian rupee against the US dollar which could eat into their operating (Ebitda) margins, major Indian IT services providers believe the worst is behind the sector.

All the top three major Indian IT firms — Tata Consultancy Services (TCS), Infosys Technologies and Wipro — either met or beat market and analyst expectations in the quarter ended September 30, 2009, registering their best performance in six quarters.

The heartening fact, say analysts, is the growth in volumes which implies that business is picking up. TCS, for instance, registered a 5 per cent growth in volumes while Infosys posted a 2.3 per cent growth. Wipro was the only company to show a dip in volume growth. But Edelweiss analysts opine that, since Wipro has not committed offers to the campus (unlike TCS and Infosys), it can absorb these volume declines without impacting margins in the coming quarters.

Viju George of Edelweiss says Wipro's numbers were "in line with expectations". However, he says the company "surprised us positively in registering a margin improvement in IT services of over 140 basis points (bps) sequentially to touch 23.8 per cent and providing a healthy guidance for IT-services revenues for Q3FY10 (2.5-4.5 per cent growth quarter on quarter)".

And all companies are telling D-street that they see growth. Wipro's guidance was much more robust than that of Infosys, the guidance of which was in the range of Rs 5,429 crore and Rs 5,476 crore for



LOOKING AHEAD

Company	Sales			PAT		
	Rs cr	YoY (%)	QoQ (%)	Rs cr	YoY (%)	QoQ (%)
TCS	7,436	6.9	3.2	1,642	29.2	7.1
Infosys	5,585	3.0	2.0	1,540	7.5	0.85**
Wipro (IT)	4,996	5.0	3.5	1,162	19.0*	14.3

* PAT numbers for Wipro include consumer care and lighting division numbers

** Infosys PAT growth was down due to high tax outgo

the quarter ended December 31, 2009. Wipro guided for revenue in the range of \$1,092 million to \$1,113 million (around Rs 5,121.5 crore to Rs 5,219.9 crore), representing a growth of 4.5-5 per cent on top line. Wipro has said the next quarter will see volume growth in the range of 2.5-4 per cent.

Further offshoring (moving work to India, in this case) has been a key to improving margins and give cost benefits to clients this reporting quarter. In the case of TCS, for instance, offshoring improved by 74 bps this quarter, bringing the off-shore component to 51 per cent of the overall revenue. In the case of Infosys, offshoring recorded a 3 per cent gain. This, coupled with increased utilisation rates, helped the margins grow.

For all the three companies, the growth has been broad-

based rather than restricted to a single vertical or client. In case of TCS and Infosys, their largest vertical — banking, financial services and insurance (BFSI) — witnessed stable growth. The BFSI segment revenue contribution went up to 45 per cent for the quarter from 43.9 per cent sequentially.

In case of Infosys, of the 35 client wins this quarter, six belonged to the BFSI vertical which now accounts for 33.5 per cent of the company's revenue. For Wipro, though, the financial services segment has been flat sequentially.

But both TCS and Infosys saw the manufacturing, telecom and hi-tech verticals bear the pressure of the slowdown. In the case of Wipro, revenues from its telecom segment showed sequential improvement. Apart from these, the three IT majors saw growth in

the healthcare, power & utility and media & entertainment sectors.

Hitesh Agarwal, head (research), Angel Broking, acknowledges that the "results were marginally above expectations". He believes margins "are pretty high, and we do not expect them to grow further". But he asserts that the "rupee is a concern and we are watching it".

Anil Advani, head of research, SBICAP Securities, concurs that "the only concern going ahead is the rupee. A steady appreciation will be manageable but a sudden or sharp movement below 45 will be a concern".

The rupee can indeed play spoilsport. TCS, for instance, suffered a Rs 113-crore forex loss during the reporting quarter. It has a total hedge of \$210 million (of this, \$75 million are old hedges booked at Rs 40.50 and the new \$135 million is at the rate of Rs 47). Wipro, on the other hand, has a total hedging of \$1 billion, and booked hedging gains of Rs 24 crore. Infosys takes a short-term view on hedges. It increased its hedges to \$699 million in Q2, against \$598 million in the June quarter.

Finally, on the hiring front, TCS and Infosys will continue to hire and honour their campus offers. Infosys has increased its total hiring by 2,000. In the case of Wipro, though, the number of hires have declined. The company's total headcount declined by 630 for the quarter. But in case of TCS, it had gross addition of 5,530 and net addition of 320. Besides, in October-December quarter, the company will add 8,000 freshers. Most of the additional employees will be experienced hands to cater to new work which is being viewed as a positive sign by analysts.