

# Infosys beats estimates with 17.3% profit in Q1, raises hopes

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pany's shares up 5% in intraday trading, before they ended the day 3% higher at Rs1,726.50 on the Bombay Stock Exchange. The exchange's benchmark Sensex index declined 1.84% to 13,504.22 points.

The stock has climbed 57% this year. Shares of Infosys' larger rival **Tata Consultancy Services Ltd** have added 67% in the same period, while the Sensex has gained 44%.

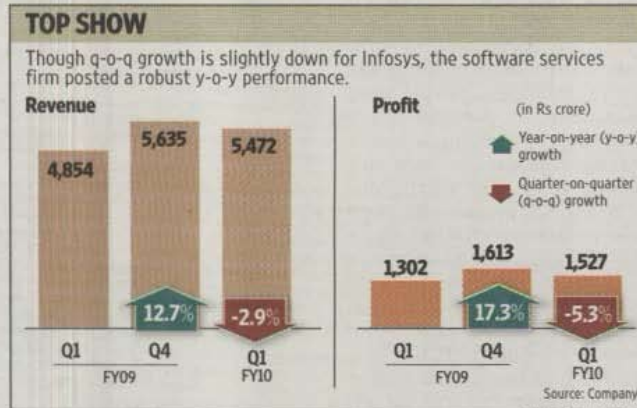
"Now, they (the company's management) are neither too pessimistic nor too optimistic about the (business) environment," said Apurva Shah, head of research at **Prabhudas Liladher Pvt. Ltd**, a Mumbai-based brokerage. "(But) there was pessimism three or four quarters ago."

"Things are a little better now," said Ashok Vemuri, global head of banking and capital markets group, Infosys' largest division that contributes at least a quarter of its overall revenue. "Budgets have been finalized, we're seeing traction. Clients continue to believe in us and aren't hesitating to call us."

## Large wins

Infosys, which counts **Goldman Sachs**, **Philips Electronics** and **BT Group Plc.** among its clients, added 27 customers between April and June, lower than 37 in the previous quarter and 49 in the corresponding period a year ago. The total tally of clients in the latest quarter fell to 569, from 579 in the preceding three months.

Still, large contract wins, including two from Fortune 500 firms, and the rupee's 6% decline



against the dollar helped its profit for the three months to 30 June climb 17.3% over a year ago, to Rs1,527 crore. Infosys bills much of its revenue in dollars and a fall in the rupee means it earns more in local currency terms for every dollar billed.

Revenue grew 12.7% year-on-year to Rs5,472 crore, though it fell 2.9% over the preceding three months.

The belt-tightening at the company also helped. Infosys curbed its marketing costs by 3.3% and said its employee strength fell 945 during the three months to 103,905, the biggest attrition in the company's 28-year history. Of these, 671 were asked to leave because of poor performance.

"I think it is a blip," said Ashok Reddy, MD of staffing firm **TeamLease Services Pvt. Ltd.** "There has been employee rationalization to combat the slowdown in the IT sector. But in the last month-and-a-half, recruitment demand has revived."

Infosys also cut the number of applications for US visas in 2009 to 405, nearly one-10th of

the 4,559 US visas it got for its employees in 2008.

"Business is down. What is the use for the visas and employees don't travel because there is not enough work?" asked T.V. Mohandas Pai, director of human resources at Infosys. Pai said Infosys plans to hire 1,000 over the next 18 months in the US. Last year, it hired around 380 in the US.

Infosys' revenues from manufacturing, retail, and the banking, financial services and insurance segments were flat during the June quarter, while it saw a marginal drop in business from telecom, energy and utilities, and transportation.

Operating margins as a percentage of sales improved to 34.1%, from 33.5% in the preceding quarter.

"The improvement in margins came in largely due to the reduction in number of employees q-o-q (quarter-on-quarter). The sequential drop in number of employees came in after several quarters for Infosys and was a surprise," Dipen Shah, IT analyst and

vice-president (research) at **Kotak Securities Ltd**, said in a statement. "The company has probably aligned costs to the expected revenue outlook."

## Caution ahead

Infosys forecast consolidated revenue to fall 3.1-4.6% to \$4.45-4.52 billion (Rs21,672-22,012 crore) in the year to 31 March and its per-share earnings to decline 11.1-12.4% in dollar terms. That compares with its earlier projection of a 11.1-15.1% decline in earnings and 3.1-6.7% in revenue.

Chief operating officer S.D. Shibulal also said he expects prices to fall by 5% in the year ending March. Infosys said it will review its forecast if business conditions improve.

"It's more to do with cautiousness because we are not seeing any big improvement at the micro level even though there are some green shoots at the macro level," chief financial officer V. Balakrishnan told analysts.

"We believe that it is too early to say the (global) economy is better. There are conflicting signals," CEO Gopalakrishnan said.

In rupee terms, Infosys lowered its revenue outlook for fiscal 2010 to Rs21,416-21,747 crore to account for currency fluctuations. In April, it had forecast revenue of Rs22,066-22,928 crore for the year.

Analysts said the reduced pace of deal cancellations and signs of stability in the key financial sector were positives, but the sector's growth rate was unlikely to pick up. "Still, there are concerns and their (Infosys) guidance shows they are not very optimistic about business recovery in the IT sector. Let's wait for a quarter or two," said K.K. Mital, head of portfolio management services at **Globe Capital** in New Delhi.

Reuters and Bloomberg contributed to this story.