

# Invest

## IT's on good ground as supply side offers comfort

DIPEN SHAH  
Kotak Securities

**W**E HAVE a positive outlook for the IT sector in 2012. While the overall macro-environment remains challenging, at this point, at micro level industries such as IT seem to be spared from the same.

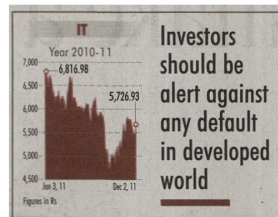
There are two reasons why we feel the microenvironment is not as bad as seen by investors a few years ago. In the earlier instance of a global slowdown, companies in the UK and the US were not spending on IT. It had just stopped. This time it is different. Spending patterns have been better this time around.

Secondly, during the 2008 crisis triggered by the collapse of Lehman Brothers, capital levels of IT services firms were poorer on an industry

wide basis than they are in 2011. This time, companies are adequately capitalised. They have enough cash on their balance sheets to survive any recession when it occurs.

There are two more reasons to have a positive outlook for the IT sector in 2012. There has been no major cut in IT spends while at the same time companies are looking at offshoring works to vendors. These two reasons provide comfort on the supply side of the industry.

On the revenue side, IT companies have scaled themselves up in competency with the large ones now capable of delivering value-added services such as enterprise applications, software implementation and high-margin consulting. A kicker in terms of the depreciation of rupee will probably help them maintain better margins. This is a major support for the



Investors should be alert against any default in developed world

business and the stocks.

On the forex hedging side, depending on the cover and the duration, companies are ade-

quately covered so that the rupee depreciation does not adversely impact them.

An important point that is usually overlooked is that FY12 was the first year after the expiry of the sunset clause for the IT industry, which meant higher tax rates. As a result, good profit growth was often marred by high tax rates. In FY13, the impact is not expected to be as high on a year-on-year basis.

### Triggers to watch out for

In terms of triggers to look out for, investors should be alert for any default in the developed world. If any, that will be a negative event for the world and more so, for the IT sector. If it happens, we will need to revisit all recommendations, including the positive outlook for the

sector. On the other hand, a major positive trigger to keep your eyes on would be any further quantitative easing. Besides leading to higher liquidity, steps on monetary easing will improve sentiments, which will most definitely help the IT sector and stocks.

### Most reliable stocks

The three most reliable stocks according to us are Infosys, TCS and NIIT Technologies. We are quite bullish on these names.

### Least reliable stocks

We do not see any significant stress on any IT stock that could earn them the reputation of being 'least reliable'.