

India's Infosys posts profit rise but shares fall

July 12 2011, by Gulab Chand

India's second-biggest outsourcer Infosys said Tuesday that quarterly net profit rose nearly 16 percent, but its shares fell after the company gave a muted outlook.

The company said clients were cautious in an uncertain economic environment as it announced that consolidated net profit in the three months to June rose 15.7 percent year-on-year to 17.22 billion rupees (\$380 million).

The results were below market forecasts of 17.3 billion rupees.

Revenues rose 21 percent to 74.85 billion rupees for the first quarter, the firm said after a board meeting in the southern city of Mysore.

Infosys shares ended down 4.27 percent at 2,794.25 rupees on the Bombay Stock Exchange, pulling down the broader market, including rivals Wipro and TCS, which give their earnings data in the coming days.

Senior executives maintained their revenue outlook, saying full-year fiscal revenues could grow 18-20 percent to between \$7.13 billion and \$7.25 billion, which analysts and investors had expected to be higher.

"The economic environment is still volatile. All the large markets are seeing problems like high unemployment and inflation, low growth and huge fiscal deficits," V. Balakrishnan, Infosys chief financial officer, told AFP.

"Clients have become cautious, as the sovereign (debt) crisis in Europe has become bigger."

The management said operating margins were affected by rising wage costs.

India's top IT firms have been hiring aggressively in the past year, as global markets rise out of recession and demand for outsourcing improves.

Infosys said on Tuesday it plans to hire 45,000 staff this year, with a target of 12,000 for the three months to September.

But analysts said the quarterly earnings were weak and outlook uncertain.

"Infosys failed to provide solid numbers, which were required to restore investor confidence," added equity research firm CLSA.

"The results were a touch below our expectation. The below-par performance could lead to near-term pressure (for the stock)," said Shashi Bhusan, analyst with brokerage Prabhudas Lilladher.

The Bangalore-based software giant, which in June announced a change in name from Infosys Technologies Ltd to Infosys Ltd, gained 26 extra clients for the quarter and made a net addition of 2,740 employees.

The company had a total of 133,560 employees as of June 30, 2010.

Infosys is in the midst of a top management reshuffle, with veteran banker K.V. Kamath to start as Infosys' new chairman next month, replacing founder-chairman N. Narayana Murthy.

Its chief executive, S. Gopalakrishnan, will become the executive co-chairman.

Infosys, a bellwether for the \$60 billion Indian export-focused outsourcing sector, was established by Murthy and six other entrepreneurs in 1981 with an investment of just \$250.

US and other foreign firms, drawn by India's vast, educated English-speaking workforce and labour costs that are lower than in the West, have farmed out a range of jobs from answering bank client calls to processing insurance claims.

Revenues from India's outsourcing sector are forecast to grow 16-18 percent to \$70 billion in fiscal 2011-12, the National Association of Software and Services Companies said the year.

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