

India's Infosys warns about IT sector outlook, shares slump

January 12 2012, by Gulab Chand

Indian IT giant Infosys on Thursday posted a 33-percent rise in its quarterly profit, but warned of a slowdown and weak client spending due to global uncertainty and the European debt crisis.

Shares in the group fell more than eight percent as investors overlooked buoyant profits to focus on the outlook given by India's second-biggest IT outsourcing firm, which is dependent on demand in the United States and Europe.

"We are seeing a marginal decrease in the pace of business. Decision-making is slow due to lack of confidence among clients," Infosys chief executive S.D. Shibulal told reporters at company headquarters in Bangalore.

He said that clients would be better placed to decide on spending and orders once the sovereign debt-crisis in Europe eases.

"Business will only pick-up once the uncertainty recedes," he said.

Infosys lowered its forecast for dollar-denominated revenues in the current financial year to March, saying growth would be 16.4 percent instead of the 17.1-19.1 percent projected in October.

The revenue forecasts were pegged back mainly due to the Indian rupee depreciating against the dollar in the past few months.

Infosys's chief financial officer V. Balakrishnan said it would be "challenging" for India's IT industry to manage extreme currency volatility.

The Indian unit -- Asia's worst performing currency in 2011 -- lost more than 20 percent of its value against the greenback last year.

The announcement of a cut in revenue outlook saw Infosys shares falling as much as 8.77 percent to an intraday low of 2,578 rupees Thursday on the Bombay Stock Exchange after earnings were announced.

Infosys closed at 2,588.6 rupees, down 8.40 percent.

"Infosys has turned very cautious. We will have to see if other IT firms turn equally negative," said Ankita Somani, an analyst with Angel Broking in Mumbai.

Shares of India's largest software outsourcer TCS closed down 3.89 percent at 1,092.9 and competitor Wipro slid 2.60 percent at 391 rupees.

TCS is set to announce its earnings on January 17.

In the three months to December, Nasdaq-listed Infosys reported net profit rose 33 percent to 23.72 billion rupees (\$465 million) from 17.8 billion rupees a year earlier.

Infosys, which builds software programmes and provides back-office support for clients, posted a 31 percent rise in third quarter revenues.

The firm added 3,266 employees in the December quarter, taking its total staff count to 145,088.

"Though earnings were on-track, the revenue guidance has disappointed

the markets," said Sanjeev Hota, IT analyst with Mumbai brokerage Sharekhan.

Infosys now estimates IT budgets from clients to be flat or marginally lower in the first half of 2012. "Discretionary spending will come down in times of uncertainty," its chief executive said.

Most of India's software firms are tapping new markets in China, Latin America, Eastern Europe, the Middle East and Africa to boost revenues, as growth remains sluggish in developed markets.

Infosys obtained nearly 87 percent of its revenues from clients in North America and Europe, the latest data shows.

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.

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Citation: India's Infosys warns about IT sector outlook, shares slump (2012, January 12) retrieved 21 June 2024 from <https://phys.org/news/2012-01-india-infosys-sector-outlook.html>

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