India's TCS profits rise 38%, rival Infosys disappoints

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India's biggest outsourcing firm, TCS, on Thursday posted a 38 percent rise in quarterly profit, beating analysts' estimates, while earnings of rival Infosys disappointed investors.

TCS or Tata Consultancy Services, part of the steel-to-tea Tata conglomerate, reported a net profit of 32.8 billion rupees ($596 million) for the financial first quarter to June, up from 23.8 billion rupees a year earlier.

"We saw strong growth across all industries, driven by robust volumes from key markets like North America, Europe and Latin America," TCS chief executive N. Chandrasekaran said.

"Looking ahead, we continue to see good demand from global corporates as they navigate an increasingly complex environment," he added.

Analysts had expected Mumbai-based TCS to post a profit of 31 billion rupees during the three months.

TCS, India's largest outsourcer by sales, said revenues climbed 38 percent to 148.7 billion rupees.

The strong TCS numbers were in sharp contrast to those of Infosys, India's second-biggest IT company by sales.

Infosys earlier in the day cut its full-year revenue outlook and reported lower-than-expected earnings, sending its shares tumbling by as much as 10 percent before retracing slightly.

Nasdaq-listed Infosys announced a net profit of 22.89 billion rupees ($416 million) in the first quarter, a rise of 33 percent, undershooting market expectations of a 24.34 billion rupee profit.

TCS and Infosys lead India's flagship IT outsourcing sector, which carries out a wide range of jobs for Western companies, such as answering bank customers' calls, processing insurance claims and software development.

India, with its large less expensive English-speaking workforce, accounts for at least 50 percent of the global outsourcing market.

Infosys scaled down its full-year dollar revenue outlook to around $7.34 billion, marking growth of just five percent. That was compared to an 8.0 to 10 percent growth estimate announced in April.

"This is a difficult economic environment all over the world," Infosys chief executive S.D. Shibulal told AFP after the results.

"A lack of confidence, slow decision-making and holding up decisions on new projects are the reasons for the lower revenue guidance."

The warning spooked investors who drove down Infosys' shares by 8.15 percent to close at 2,265.25 points. Infosys, which in better times traditionally exceeded revenue forecasts, cut its sales outlook twice last year and eventually missed its own guidance for the first time ever.

TCS shares closed 1.8 percent lower ahead of its earnings announcement.

Commenting on the Infosys' results, Bhuvnesh Singh, an analyst at Barclays Capital, said: "We are worried as two indicators are now flashing red -- order cancellations have started and billing rates have tumbled."

Infosys' revenues rose 28.5 percent to 96.16 billion rupees for the first quarter from a year earlier.

India's weak rupee, which has hit record lows against the dollar, boosted the bottom lines of TCS and Infosys which, like other Indian IT outsourcers, bill foreign clients in dollars and then convert into rupees.

India's software firms derive over 85 percent of their revenues from the United States and Europe.

The National Association of Software and Services Companies forecasts India's IT export revenues to slow this fiscal year to up to 14 percent growth -- down from around 16 percent expansion in the last financial year.

Casting a pall over the sector was a report by US-based Information Week that US automaker GM plans to slash the amount of work it outsources, from 90 percent of its IT services, to just 10 percent.

The publication said GM believes outsourced information technology cannot deliver the game-changing ideas the vehicle manufacturer needs.

The reported decision comes as US President Barack Obama, campaigning for re-election, has been exhorting companies "to bring home jobs" in order to reduce unemployment.