Shares in India's Infosys dive after weak earnings (Update)

April 12 2013, by Gulab Chand

Shares in Indian outsourcing giant Infosys dived Friday after it issued a disappointing growth forecast and warned of global challenges, sparking worries about other firms in the flagship sector.

Infosys, whose earnings have traditionally been seen as a bellwether for the sector, said net profit rose 3.4 percent to 23.94 billion rupees ($439 million) for the three months to March, slightly ahead of forecasts.

But below-expectation January-March revenues and sales projections for the coming 12 months sent the firm's shares tumbling by more than 21 percent.

"The lower-than-expected results and guidance reflects the uncertain macro environment and the pricing pressures the company is experiencing," said Dipen Shah, head of private client research at Mumbai's Kotak Securities.

Many of India's IT outsourcing firms have been going through a rough stretch and they say the outlook for the industry remains difficult due to uncertainty in key US and European markets.

Infosys' fourth-quarter revenues rose 18 percent to 104.54 billion rupees, undershooting forecasts of 107 billion rupees.

And the outsourcer, the second-largest by revenues, said its dollar-based revenue in the financial year to March 2013 would grow by six-to-10 percent, far slower than analysts' hopes of up to 12 percent.

The company's results, which kicked off the quarterly earnings season, showed full-year revenue of $7.39 billion for the year-to-March 2013, missing its own earlier forecast of $7.45 billion.

It has stopped providing quarterly guidance since October and now has ceased giving an annual earnings per share forecast—both critical data for analysts. Barclays capital research head Bhuvnesh Singh said confidence in Infosys's guidance remains "low". In the past year, it has missed sales targets, lost market share and seen its stock slide as US revenues decline.

Gartner India's research manager Partha Iyengar said: "Infosys shows continued signs of stress in their overall performance.

"Continued weak guidance, even in the context of firming economic indicators globally and especially in the key US market, is a significant cause of concern."

Infosys closed the day down 21.33 percent at 2,295.45 rupees.

Shares in other outsourcers also fell, with market leader TCS ending down 1.63 percent at 1,511.3 rupees while another heavyweight, Wipro, down 4.72 percent lower at 383.30 rupees.

The results come as Infosys, which is also listed on New York's Nasdaq, seeks to reinvent itself with a strategic overhaul to focus on higher value software and consulting services instead of labour-intensive outsourcing services.

"Growth is the biggest challenge for us and we have to get growth back, which will require us to make investments and differentiate our service offerings," Infosys chief financial officer Rajiv Bansal told AFP.

Chief executive S.D Shibulal said global economic signals remain mixed, "which is hampering clients' ability to take quick decisions".

Infosys, which has undergone a top management shuffle, has decided to focus on higher value software and consulting services for clients instead of labour-intensive outsourcing services.

Its acquisition of Zurich-based firm Lodestone for $350 million in September was a step towards this move.

A quarter of the company's revenue comes from Europe, and in recent years the firm has shifted focus to emerging and new markets such as Singapore, Brazil, Mexico and eastern Europe.

India, with its large English-speaking workforce, accounts for at least 50 percent of the global outsourcing market and the industry is a vital exporter.

Analysts say fourth-quarter earnings of Indian companies could be worse than the previous quarter amid struggling economic growth.

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