

Investors cheer Infosys founder's return but analysts skeptical (Update)

June 3 2013, by Salil Panchal

Shares of Infosys jumped Monday as investors cheered the return of founder N.R. Narayana Murthy to boost the Indian outsourcing giant's sagging fortunes, but analysts questioned his chances of success.

On Saturday Infosys recalled its co-founder and former chairman Murthy to take the reins, almost two years after he retired in August 2011 on turning 65.

Infosys shares closed up more than 4.4 percent at 2,513.95 rupees after soaring in early trade by over nine percent in response to the news.

Murthy is returning as executive chairman to Infosys, India's second-largest software outsourcer by revenue, at a time when it is struggling with weak earnings, loss of market share and waning employee morale.

"It would be too simplistic to assume that Murthy has a magic wand to turn things around," said Ajay Bodke, head of investment strategy at Mumbai's Prabhudas Lilladher brokerage.

But he told AFP that Murthy's "deep relationships" in the global corporate world would help Infosys.

Three decades ago, Murthy, who has an iconic stature in Indian business as a pioneer of the country's flagship outsourcing industry, and six others sat around a kitchen table and created Infosys.

Murthy, after his reappointment, described Infosys as his "middle child" and said that was why he had accepted the request by the company to return.

Since Murthy's exit in 2011, India's IT industry has seen a change in the business environment with a focus on new growth areas of cloud computing and consultancy.

The Bangalore-based Infosys, also listed on New York's Nasdaq, has been seeking to reinvent itself to focus on higher-value software and consulting services instead of labour-intensive outsourcing services.

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

But Infosys has been conservative and strict in its approach in scouting for big deals, often losing out to rivals which have focused on volume growth.

"Murthy will want to put his stamp, demonstrate that the leadership is different," said Sonam Udasi, head of research at IDBI Capital.

"Infosys will be different, post-Murthy, but for any firm which has had a tough two to three years, the change cannot come overnight," said Udasi.

Infosys, whose earnings have traditionally been seen as a bellwether for the sector, has lost much of its halo in recent years.

Net profit rose just 3.4 percent year-on-year to 23.94 billion rupees (\$439 million) for the final quarter to March.

Its expectation that revenues would grow by just six to 10 percent in the

current financial year was significantly below the 12 to 14 percent industry average forecast by the National Association of Software and Services Companies.

"When a company dusts off a long-retired founder chairman and brings him back into an active management position, it can mean only one of two things," The Hindu newspaper said in an editorial.

"Either that the situation is desperate and the company badly needs the experience, equity and goodwill of the founder to steady the ship, or that it is unable to attract equivalent talent from outside."

"In the case of Infosys.....it probably means both," the editorial said.

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