

IT Cos May Put Up Good Q2 Show on Falling Rupee, Better Demand

POSITIVE OUTLOOK Tier 1 tech firms such as TCS, Infosys and HCL expected to post a steady growth driven by favourable currency rates, large deals that have contributed to sector's recovery

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Bengaluru: India's export-oriented IT services sector is expected to report steady growth for the July-September quarter, driven by favourable currency rates, improved demand and large deal wins that have helped extend its recovery.

Tata Consultancy Services (TCS), the country's largest software exporter, is expected to report the strongest second-quarter numbers, according to analysts.

Other top-tier IT services companies including Infosys and HCL Technologies, too, are expected to report steady growth following a revival in demand.

"The usual second-quarter seasonal strength, coupled with the benefits from a favourable currency, is likely to drive a continued recovery for the technology sector. Margins... would be uplifted by the depreciation in the rupee versus the US dollar, while also getting support from the improving performance," wrote Gautam Duggad, head of research at brokerage Motilal Oswal.

"We expect Tier 1 IT vendors to show a steady execution in (the second quarter). Constant currency revenue growth for the quarter

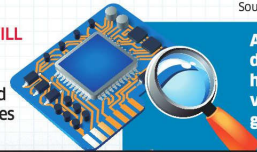
Recovery Drive

| COMPANY | Revenue | | | Growth | |
|---------|---------|--------|--------|--------|------|
| | Q2FY19E | Q1FY19 | Q2FY18 | YOY | QoQ |
| TCS | 5,191 | 5,051 | 4,739 | 9.5% | 2.8% |
| Infosys | 2,906 | 2,831 | 2,728 | 6.5% | 2.7% |
| Wipro | 2,028 | 2,026 | 2,014 | 0.7% | 0.1% |

(Figures in \$ million)

Source: Companies, Motilal Oswal

IT INDUSTRY WILL look for signs of recovery in the banking and financial services segment



A surge in the no of deal closures with higher total contract values points to higher growth for the sector

would be in the band of 0.7-3.5% (quarter-on-quarter). TCS to report the strongest growth; Tech M the weakest," wrote Madhu Babu of Prabhudas Lilladher.

"We expect cross-currency movements to be a headwind of 90-150 basis points for Tier 1 IT vendors (based on the mix of revenues). Hence, reported USD revenues would grow by (0.8)-2.2% quarter-on-quarter," wrote Babu.

The IT industry will look for signs of recovery in the banking and financial services (BFSI) segment.

TCS, which will begin the IT sector's quarterly results season on October 11, and its Bengaluru-ba-

sed peer Wipro last quarter reported a revival in the BFSI segment, which garners the largest pie of revenue for the sector.

TCS expected to report the strongest growth; Tech Mahindra the weakest, said an analyst

A surge in the number of deal closures with higher total contract values points to higher growth for the sector, beginning from the second quarter, analysts at three brokerage firms have said.

"Infosys has announced a slew

of deals during the past few months and, hence, we expect continued confidence in revenue momentum," wrote Babu of Prabhudas Lilladher.

Sharekhan wrote in a note that the quarter-on-quarter numbers of the country's top five IT services companies are "driven by ramp-up of large deals won."

Credit rating agency ICRA has said it expects the Indian IT services sector to register a compound annual growth rate of 9.0-12.0% in the 2018-2021 period. The agency said a sample set of 13 companies grew by 13.1% in rupee terms, and by 8.4% in US dollar terms, during the first quarter ended June.

According to ICRA, net employee additions, too, point to a positive trend, with about 35,000 additions during the first quarter alone, as compared with 11,600 during fiscal year 2017-18 and 93,500 people added in 2016-17.

"The earlier small-scale proof of concept digital projects has started evolving into enterprise-level larger implementations, coupled with improvement in discretionary spend supporting future growth," said Gaurav Jain, vice president, ICRA. "We expect large Indian IT companies to grab a higher share of the digital services space over the next three years."