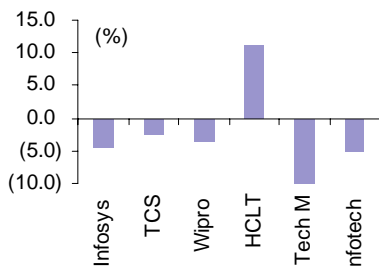
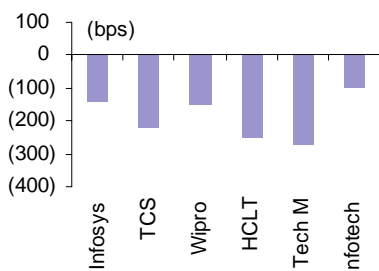
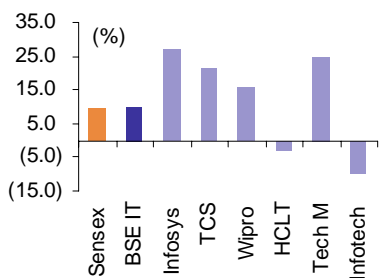


Q4 FY09E US\$ Rev growth qoq


Source: India Infoline Research

Qoq change in OPM


Source: India Infoline Research

Price performance since Jan'09


Source: Bloomberg, India Infoline Research

Organic dollar revenues to decline by 4-10% qoq

The operating environment for software companies worsened in Q4 FY09 with increasing instances of project cancellations/non-renewals, pricing re-negotiations and delay in schedule ramp-ups as clients faced heightened business uncertainty. We expect companies in our coverage to report a decline of 4-10% qoq in their organic dollar revenues. Sequential volume growth would most certainly be negative for all in the range of 1-5%. Like-to-like pricing in constant-currency terms is expected to be lower 1-2% qoq with blended pricing falling further due to increasing offshore mix. The negative impact of cross-currency movements on sequential revenue growth is anticipated at 1-1.5% (except 5% for Tech M), significantly lower than Q3 FY09 though. The full-impact of acquisitions would shore-up qoq revenue growth of HCL Tech (Axon), TCS (CGS) and Wipro (CITOS) by 12-14%, 3% and 1% respectively. Rupee depreciation would inflate the qoq rupee revenue growth by 1-2%.

OPM to contract materially; profit to decline sharply for some

OPM would contract by 100-300bps qoq for our coverage companies. Key margin headwinds would be decline in pricing, lower utilization from diminishing volumes and margin dilution from higher contribution of acquisitions. Rupee depreciation, offshore shift and SG&A leverage would provide some support to margin though. In Q4 FY09, companies are likely to report net forex loss marginally lower or similar to Q3 FY09 levels. Net profit is expected to dip by 3-21% qoq for the top five companies.

Infosys to guide for 0-5% decline in dollar revenues and Rs100+ EPS in FY10

We reckon that Infosys would guide for a 0-5% decline in dollar revenues and EPS at Rs100-103 for FY10. Market expectations range from 0-10% decline in dollar revenues and Rs97-103 for EPS. Our FY10 guidance estimate for Infosys is based on expectations of 3-6% volume growth, 5-7% pricing decline, 170-220bps margin contraction, significant growth in other income, 200-250bps increase in tax rate and Re/US\$ at Rs50. Given that Infosys has significantly outperformed the market in past three months, any negative surprise with respect to guidance could be severely punished.

No revival in sight; remain negative on the sector

Overall, business volumes would be weak in H1 FY10 for the industry and the visibility is bleak beyond that. Further risks to FY10 dollar revenues stems from steeper-than-anticipated like-to-like pricing cuts and continued appreciation of the US dollar. Most of the companies could report a flat growth or material decline in profits in FY10. We believe that Infosys, TCS and Tech M have negligible room for any negative surprises in Q4 FY09 results while HCL Tech and Infotech have higher cushion.

Q4 FY09 Estimates

(Rs m)	Revenues	qoq growth (%)	OPM (%)	qoq change (bps)	PAT*	qoq growth (%)
Infosys	56,125	(3.0)	33.7	(140)	15,295	(3.1)
TCS	72,058	(1.0)	24.6	(220)	12,496	(7.6)
Wipro	65,337	(1.0)	17.7	(150)	8,896	(11.4)
HCL Tech	28,096	12.8	20.0	(250)	2,940	(21.3)
Tech M	10,303	(9.0)	25.4	(275)	1,760	(21.0)
Infotech	2,246	(3.5)	18.4	(100)	156	7.4

Source: Company, India Infoline Research

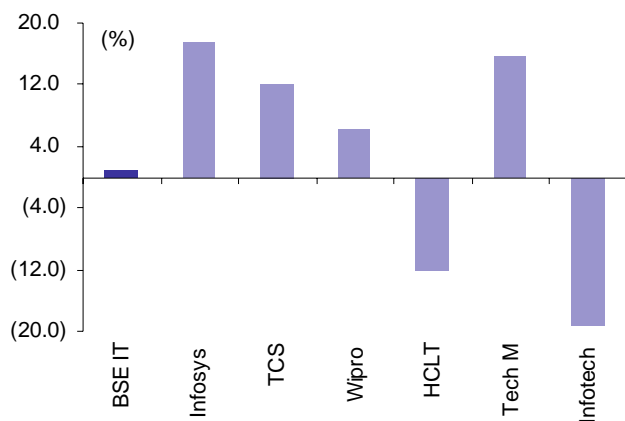
*Pre-exceptional PAT

Quarterly currency movements

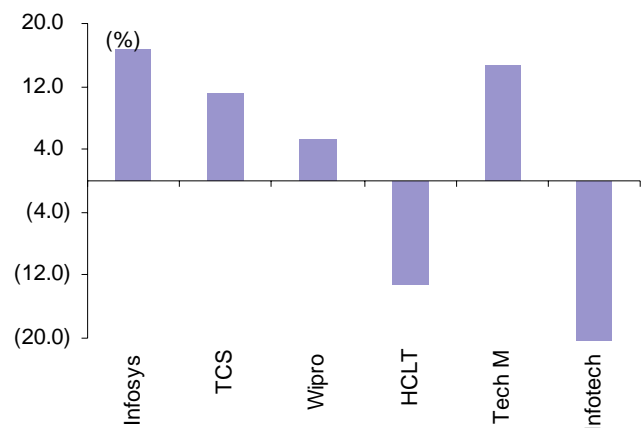
Currency	Quarter	AQR*	% qoq	EOP*	% qoq
Re/US\$	Q1 FY08	41.3	(6.6)	40.7	(6.4)
	Q2 FY08	40.5	(1.8)	39.8	(2.3)
	Q3 FY08	39.5	(2.6)	39.4	(0.9)
	Q4 FY08	39.8	0.8	40.1	1.8
	Q1 FY09	41.6	4.7	43.1	7.3
	Q2 FY09	43.8	5.0	47.0	9.1
	Q3 FY09	48.8	11.5	48.7	3.7
	Q4 FY09	49.8	2.0	50.7	4.1
Re/GBP	Q3 FY09	76.5	(7.7)	71.1	(15.0)
	Q4 FY09	71.6	(6.4)	72.7	2.2
Re/Euro	Q3 FY09	64.4	(2.2)	68.0	2.7
	Q4 FY09	65.1	1.1	67.2	(1.1)
US\$/GBP	Q3 FY09	1.6	(17.1)	1.5	(18.0)
	Q4 FY09	1.4	(8.5)	1.4	(1.9)
US\$/Euro	Q3 FY09	1.3	(12.2)	1.4	(0.9)
	Q4 FY09	1.3	(1.1)	1.3	(5.2)

Source: Bloomberg, India Infoline Research;
* Average Quarter Rate, End of Period Rate

Performance v/s Sensex



Performance v/s BSE IT



Source: India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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