

CTSH adopts 'cautious' tone; Demand pangs evident

CTSH reports in line numbers; Guides for lower than consensus Q2

CTSH reported revenues of US\$ 643.7 mn (+7.2% QoQ) and earnings of US\$ 0.34, broadly in line with consensus expectations. Revenues from Europe up ~12% qoq while revenues from Financial Services were up only ~3% qoq. CTSH guided for June quarter revenues of US\$ 680 mn (+5.7% QoQ), much lower than consensus expectations of ~US\$ 707 mn (Reuters consensus).

Cautious Commentary; Maintains 'stiff' full yr guidance

We note that CTSH's commentary during the investor call appeared more cautious than the last quarter ((7th February'08) as evident from Q2 guidance of ~5.7% revenue growth (implying a stiff 12.6% CQGR over H2CY08 for the company to meet it's annual guidance of 38% revenue growth for CY08) We note that the slightly cautious stance from CTSH could be stemming from the weakness in the financial services vertical (**company acknowledged that clients had stepped back, begun to reassess their spending plans that is leading to increased project delays**) with further caution evident from the company doing away with it's practice of providing annual hiring plans (**company had indicated of annual headcount addition of ~20k in Feb, now desisted from putting a number to it**).

Besides we note that although the company has maintained it's full year revenue guidance at 38% revenue growth to US\$ 2.95 bn, the company has changed the **guidance from' atleast 38% to 'approximately 38%** which also includes ~1.5% revenue contribution from the alliance with T Systems'

Infosys, Satyam guidance not as aggressive as Cognizant's

We note that Infosys and Satyam's revenue guidance is not as aggressive as CTSH's 38% revenue growth. (**please refer to the table below**)

(in US\$ mn, except %)	June quarter guidance	QoQ growth	FY09 guidance	YoY growth
Infosys	1145	0.3	5050	21
Satyam	634.8	3.5	2690	26
Cognizant	680	5.7	2950	38

Source: Company, Emkay Research

Uncertainty in BFSI linger, projects delays continue

We note that CTSH indicated that the fall of Bear Sterns in early March had created jitters in the Financial Services space leading to clients reassessing their IT spending plans and hence causing a delay in IT projects. The company indicated that the delay in IT projects had continued during both March and April as well. We further highlight that CTSH joined the ranks of the rest of the industry that see **a 'back ended' growth** however we highlight that if the delay in starting IT projects were to linger for long , the back ended growth assumption could be at risk

INR depreciation led the recent rally in IT stocks

The recent rally in the Indian IT stocks has been led by the sharp depreciation in the INR (Rs has depreciated by ~4%+ in the past few days) fuelling the recent rally). However we note that despite the early cheer from the currency benefit, it is imperative for investors to refocus attention on the macro demand environment front (**that could impact volume and pricing**) as they are bigger driving factors for financials of the companies.

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