

Indian IT Services

First evidence of salary cut in Indian IT, we continue to expect margin resilience from top tier players and remain fundamentally positive - ALERT

- Hexaware Technologies today announced moves to control costs and improve current utilization.** The company has put 350 non-billable employees on virtual bench on account of limited billing opportunities. During this period the company would give them compensation equivalent to 50% of their basic salary. Further Hexaware has announced that it will introduce salary cuts between 2-10% for certain employees effective April, 2009. The cut would be for employees above the entry level and would impact around 60% of the employees.
- Read-through for the IT Sector:** The salary cut is the first evidence of Indian IT firm cutting employee salaries. Salaries typically form ~50% of the revenues of the Indian IT companies and hence even a 5% reduction can have a 250bps positive impact on the margins. Further IT companies are already indicating a cut in the variable salaries (5-7% of the revenues). Also the depreciating Rupee against the US\$ would be an additional tailwind to the margins. These cost cutting measures are largely inline with our expectations and reinforce our view that top tier Indian IT companies would be able to defend margins in FY10E despite pricing pressure.
- Investment view:** While revenue growth remains the key variable of debate - we continue to believe that top tier players can deliver flat revenues in FY10E due to market share gains and Satyam issue. Given low investor expectations, flat revenue/EPS would be enough to drive share price out-performance in our view leading to our positive fundamental view on Infosys and TCS. However, 4QFY09 should be a tough quarter as companies absorb most of the impact of reduction in prices leading to our near-term cautious view.

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Companies Recommended in This Report (all prices in this report as of market close on 03 March 2009)

Infosys Technologies (INFY.BO/Rs1,197.60/Overweight), Tata Consultancy Services (TCS.BO/Rs445.15/Overweight)

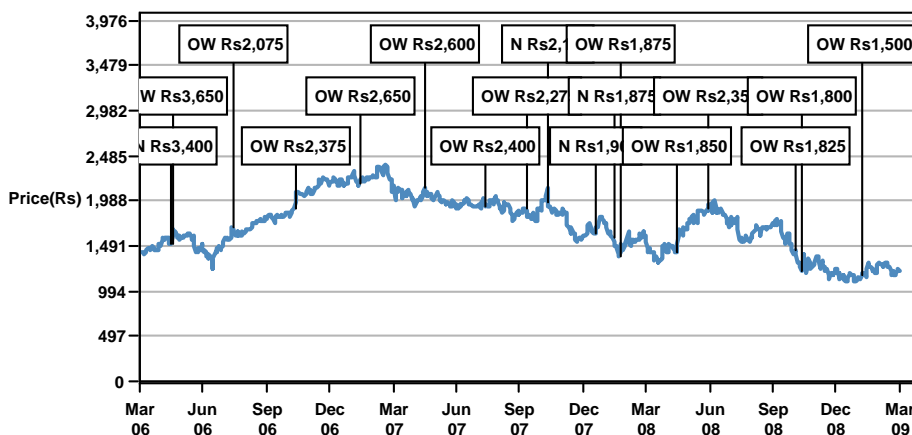
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Infosys Technologies (INFY.BO) Price Chart



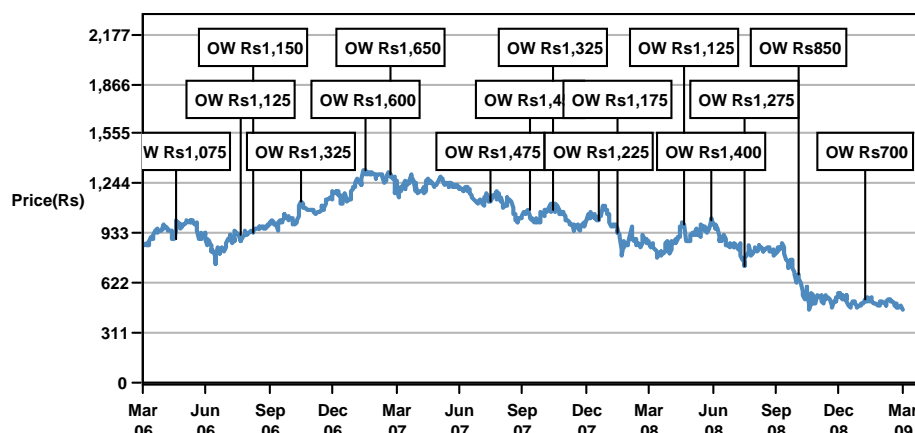
Date	Rating	Share Price (Rs)	Price Target (Rs)
14-Apr-06	N	1510.40	3400.00
17-Apr-06	OW	1510.40	3650.00
13-Jul-06	OW	1693.22	2075.00
11-Oct-06	OW	1906.00	2375.00
12-Jan-07	OW	2183.00	2650.00
16-Apr-07	OW	2128.30	2600.00
12-Jul-07	OW	1929.70	2400.00
10-Sep-07	OW	1908.85	2275.00
12-Oct-07	N	1976.00	2150.00
18-Dec-07	N	1621.95	1900.00
14-Jan-08	N	1580.10	1875.00
23-Jan-08	OW	1377.55	1875.00
15-Apr-08	OW	1422.45	1850.00
29-May-08	OW	1912.65	2350.00
02-Oct-08	OW	1453.90	1825.00
11-Oct-08	OW	1226.70	1800.00
06-Jan-09	OW	1174.45	1500.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.

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J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Tata Consultancy Services (TCS.BO) Price Chart



Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
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