IT earnings preview

Infosys is likely to perform better than its peers in Q1FY2007

Operational dynamics

The revenue growth of the information technology (IT) companies for Q1FY2007 would be in the range of 6-10% driven by a 4-8% growth in the volumes and 2-2.2% depreciation in the rupee against the US dollar. The rupee has seen a depreciation of 6.9% against the euro and a depreciation of 6.7% against the pound sterling.

Exchange rate movement

INR vs	30-Jun-06	31-Mar-06	28-Dec-05
US ($)	45.4	44.4	45.4
% change	*2.3*	*-2.2*	*3.9*
Euro	57.1	53.4	54.0
% change	*6.9*	*-1.1*	*1.3*
Pound Sterling	83.1	77.8	79.4
% change	*6.7*	*-2.0*	*1.8*

The favourable forex movement would boost the operating profit margins and cushion against the adverse impact of the cost pressures.

However, the mark-to-market losses against the forward cover would result in a much lower other income. Thereby, leading to a lower growth in the earnings.

Winners and losers

Infosys with its front-ended growth would be the best performer among the front-line IT services companies. Satyam would also positively surprise by better than guided earnings growth of 1.2% (as against the guidance of a sequential decline of 1.7%). On the other hand, Wipro is likely to disappoint with a flattish performance both in terms of the revenue and earnings growth.

Company specific comments

Infosys Technologies

The $210 million cover through options should result in lower mark-to-market losses for Infosys. The margins are likely to decline by 80 basis points due to a wage hike. Any possible uptake in the growth guidance would be an important factor to be watched.

Satyam Computer

The lower employee utilisation (record high net additions in Q4) is likely to impact the margins in Q1 of Satyam Computer, but this would be partially mitigated by the forex movement leading to a higher-than-expected earnings growth. The outlook for Q2 would be important as the wage hike will be applicable from July 1 and the guidance implies a back-ended growth.

Earning estimates

(Rs crore)	Net sales			Net profit			EPS	OPM
	Q1FY07	qoq (%)	yoy (%)	Q1FY07	qoq (%)	yoy (%)	(Rs)	(%)
Infosys Tech	2,873.0	9.5	38.7	702.4	4.4	32.0	25.5	30.9
Guidance	*2793-2816*						*24.8-25.2*	
Satyam Computer	1,395.0	6.2	31.8	288.0	1.2	51.4	8.88	25.0
Guidance	*1359-1366*						*8.66*	
HCL Tech	1,215.3	8.3	31.0	222.5	15.4	37.4	7.3	22.4
Wipro (cons)	3,060.0	0.2	33.8	596.5	-0.2	39.8	4.3	20.7
Guidance (Global IT)	*$533mn*							
TCS	4,020.0	7.7	38.0	854.0	5.5	32.0	17.5	26.4

HCL Technologies

The expected higher other income is the key to the consensus earnings estimate of HCL Technologies. The ramp-up in the revenues from the large deals and the subsequent growth in the software services business is an important factor to watch.

Wipro

The revenues of Wipro from global IT services are likely to grow sequentially by 6.1% to Rs2,430 crore. However, the seasonally weak performance of the Indian IT services and other domestic businesses would drag down the overall growth on a consolidated basis.

TCS

The incremental revenues of TCS of around Rs60 crore should boost the overall revenue growth to 7.7% on a sequential basis. However, the margins are likely to decline by 70 basis points due to a wage hike for offshore employees and the low margin contribution from the Pearl deal. Watch out for the net employee additions.

The author doesn't hold any investment in any of the companies mentioned in the article.