Infosys says quarterly profit up 8.7 percent

ERIKA KINETZ - AP Business Writer - Associated Press

Infosys Technologies Ltd., India's bellwether information technology outsourcing company, said Tuesday quarterly profit rose 8.7 percent in dollar terms as a revival in demand for services spread to European and manufacturing clients.

The company said revenues this fiscal year would grow 16 to 18 percent, but cautioned that a strengthening rupee, pricing pressures from still-cautious global clients and wage hikes would cut into margins.

Net profit for the January-March quarter was 16.0 billion rupees ($349 million), or 0.61 cents per American Depository Share. It was a 4.5 percent increase in dollar terms over the previous quarter.

Revenues were 59.4 billion rupees ($1.3 billion), up 15.6 percent from a year ago and up 5.2 percent from the prior quarter in dollar terms.

Both measures beat analyst expectations in dollar terms.

"I strongly believe that unless something dramatic happens we are again back on a growth curve," chief executive S. Gopalakrishnan told reporters.

The company, which usually exceeds its forecasts, said it expects revenues for the fiscal year ending March 2011 to rise 16 percent to 18 percent to $5.6 billion to $5.7 billion. It expects earnings to rise 4.3 percent to 8.6 percent to $2.40 to $2.50 per American Depositary Share.

India's export-driven IT services companies, which develop software and manage back office operations for many Fortune 500 companies, were hard hit by the downturn, as budgets froze and a wave of consolidation swept through Wall Street.

Few expect revenue growth to return to the 30 percent-plus yearly gains of the boom, but business began to revive late last year as global firms sent more work offshore to cut costs. Now the recovery is spreading from U.S. and financial services companies to European and manufacturing clients.

Big clients who suffered during the financial crisis are spending again, said Rahul Jain, an analyst at Mumbai's Angel Broking.

"Clients are now increasing their budgets," he said. "Backed by new business growth, we are expecting good times ahead."

Infosys said revenues from Europe grew 7.9 percent over the prior quarter, beating North America's 4.4 percent growth. Manufacturing revenues grew 10.2 percent over the prior quarter, exceeding the 5.9 percent growth in revenue from financial

services companies.

The company said it sealed five large deals during the quarter — two worth over $150 million — a sign that business from large clients has started to recover.

"All sectors are doing well," Gopalakrishnan said. "All markets have done well. We are even seeing a recovery in Europe. It's an all-around growth at this point."

North American clients account for two-thirds of Infosys' revenue.

Infosys, along with market leaders Tata Consultancy Services and Wipro, has picked up hiring and is offering wage hikes — moves that are putting pressure on margins.

Infosys executives said Tuesday they plan to raise wages by 2 to 3 percent for workers outside India and 13 to 17 percent for India employees to fight rising attrition. They said that, plus a strengthening rupee, will likely squeeze margins for the fiscal year ending March 2011 by 1.5 percentage points.

While large deals are coming back, pricing pressure remains acute.

Average pricing at Infosys fell by 1.5 percent during the quarter and executives said they are planning for flat pricing in the year ahead.

Infosys shares rose 2.0 percent to 2737.0 rupees ($61.37) a share in midmorning trade on the Bombay Stock Exchange in an otherwise flat market.

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