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**Analysis of Second Quarter Results of IT  
Sector**

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**Swati Gupta / Samreen**

## **Rising Rupee puts a check on IT pay cheque, says AFP**

If the trend noticed in India's top four IT firms is an indication, the headcount expansion in the IT sector appears to have slowed down as the companies find it difficult to maintain high growth pace in topline owing to strong domestic currency and sub-prime troubles in the developed markets of US and UK, an AFP Study has said.

An AFP Study based on the quarterly results by the top four IT companies including Wipro, TCS, Satyam and Infosys, which account for more than 70 per cent of the Sector's revenue, has revealed that the salary payments in the sector which were growing at the high rate of 64 per cent till last year have slowed to 25 per cent.

It stated that a 12 per cent appreciation in Rupee against US dollar and the shut down of many mortgage finance companies led by heavy losses in sub-prime segment could have played spoil sport in IT growth story. The sales growth of the top IT firms has come down from average 45 per cent in first two quarters in previous fiscal to 27 per cent this financial year.

In fact, Tata Consultancy Services in its league reduced wage bill by 5 per cent in Q2 over the second quarter of FY2006-07. The employee compensation reported by TCS reduced from Rs.1557 crore in Q2 of FY07 Rs. 1470 crore in three months ending September 2008. In contrast, last year the IT giant recorded 57 per cent rise in wage bill in second quarter of the FY2006-07.

Strengthening of Rupee vis-à-vis US currency has put pressure on the profit margins of the IT companies whose 90 per cent revenue are dollar denominated. As per the AFP, average growth rate of net profit of IT majors has declined to 22 per cent in April-September period of current financial year as compared to 48 per cent increment in similar period last year. As a result, the companies are compelled to reduce the wage hikes to cut down the expenses.

"Hedging against further appreciation of Rupee may secure the revenue growth in coming quarters but any slowdown in US economy may dampen the IT sector growth", said Mr. Venugopal Dhoot, President, Assocham. The AFP stated that the hiring spree of the IT companies seems to have slowed and the employment outlook for the current financial years is not as encouraging as in the last year.

The pang of weak Dollar on Infosys salaries was not felt in the first quarter as a 55 per cent growth was recorded despite slowdown in growth rate at 23 per cent and 45 per cent in income and net profit. But the wage bill saw the impact in the second quarter. The employee expenses of the company have increased by mere 24 per cent in the second quarter this year as compared to 55 per cent rise last year. The growth in toplines and bottomlines were likewise restricted to 18 per cent as compared to whopping 50 per cent rise in the previous year.

The financial statement of Wipro has also portrayed similar picture. Q1 of current fiscal reported above 30 per cent growth in staff cost as last year, but the increment rate declined to 26 per cent in Q2 as compared to 46 per cent in FY07. Income growth decelerated to 34 per cent in three months ending Septmeber'08 from 56 per cent in

the corresponding period of last year. Bottom line growth is down to 17 per cent from 46 per cent last fiscal.

Satyam Computer Services has been able to maintain its income and profit growth intact with last year figures. Its sales grew by 31 per cent and bottom line by 30 per cent in second quarter of this fiscal as compared to 36 per cent and 28.5 per cent growth last year. But the company's expenditure on employees increased by 32 per cent while the growth rate was 45 per cent last year.

Top IT companies	Growth Rate in Second Quarter (in per cent)					
	Total Income		Net Profit		Wage Cost	
	FY08	FY07	FY08	FY07	FY08	FY07
Wipro	33.9	56.4	17.5	46.4	26.6	46
TCS	27.1	47	23.1	50.1	-5.5	57.3
Satyam	31.3	36.3	29.4	28.5	32.3	45.07
Infosys	18	50.8	19.8	51.3	24	55
<b>Average</b>	<b>27.5</b>	<b>47.6</b>	<b>22.45</b>	<b>44</b>	<b>19.3</b>	<b>50.8</b>

The cumulative wage expenses of the four companies tracked by AFP were Rs. 6067 crore in the second quarter of current financial year as compared to Rs. 5164 crore last year. The Q-on-Q sequential growth in the cumulative salary expenses of these companies is almost zero as the total salary amount in first quarter of this year was Rs. 6047 crore.