

News

SMALL & MID IT PLAYERS

Volatile Re, Poor Demand to Play Spoilsport in Q3

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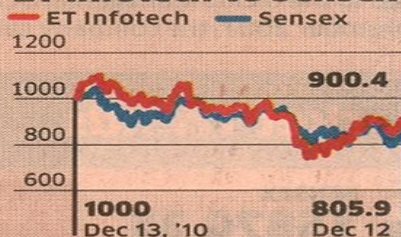
Medium and small IT players reported slower growth in revenue and falling profits in the September 2011 quarter at the aggregate level. Their performance is likely to suffer in the current quarter as well, given the double whammy in the form of volatile rupee and possibility of slower uptick in demand.

The tier II technology players are affected the most in times of a slowdown due to their inability to absorb the sharper budget cuts by clients due to lack of operational scale and limited offerings. The signs are visible from their September quarter performance. Aggregate net sales of 120 small and medium IT companies rose by 11% in the September quarter from the year ago. Though it was in double digits, it was the slowest in the past five quarters. Top IT players, on the other hand, registered a better sales growth of 17-25%.

In addition, while profit before depreciation, interest, taxes (PBDIT) rose at a faster rate of 12.5% compared with sales growth, it was mainly due to a steep rise of two-and-a-half times in other income. Excluding the impact of other income, PBDIT fell by 3.4% on a year-on-year basis.

What is also worrisome is the fact that net profit dropped by 5.3% during the quarter from the year-ago period notwithstanding the jump in other income. This also reflects the pressure on profitability of companies. Operating margin for the sample shrank by 220 basis points to 14.8% during the quarter from the year ago.

ET Infotech vs Sensex



While a majority of the tier II IT players are facing tough scenario, a handful of companies have continued to report traction on account of their focused attempt to build relevant skills. Mumbai-headquartered Hexaware Technologies, for instance, has shown better order

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inflow over the past few quarters. Other companies such as Omnitech Infosolutions, Take Solutions, KPIT Infosystems and Glodyne Technoserve have also reported a sustained order inflow. Revenue and PBDIT of each of these companies grew in double digits in the September quarter. In the coming quarters, the trend in the budget allocation of the US clients, which will be visible in the early next year will be crucial in determining the growth of Indian IT companies. The rupee-dollar movement will also play an important role since an abrupt currency movement hurts net margins of companies.

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