Profits up but outlook 'cautious' at Indian software giant TCS

January 9 2023

Rajesh Gopinathan of Tata Consultancy Services says clients are expected to remain 'cautious' and watchful of inflation.

India's largest software exporter Tata Consultancy Services on Monday reported higher earnings in the December quarter, but missed expectations and warned of a "cautious" business environment in the new year.

TCS is India's second-most-valuable company by market capitalisation and earns more than 80 percent of its revenues from Western markets.

It has been at the forefront of an IT boom that has seen India become a back office to the world as firms in North America and Europe subcontract work, taking advantage of a skilled English-speaking workforce.

More recently, technology companies have benefited from a boost in demand for digital services since the pandemic.

But fears of an impending recession in key Western markets have hit business sentiment in recent months as software clients turn cautious, the company said.

"Europe is a market where client decision-making is getting impacted by the ongoing geopolitical challenges there and requires close watching," chief executive officer Rajesh Gopinathan told a media briefing.

Gopinathan added that North America, which contributes half of its business, remained "vibrant" even as clients are expected to remain "cautious" and watchful of inflation in the early part of the year.

Net profit at the IT giant rose to 108.46 billion rupees ($1.3 billion) in the three months ended December 31, 11 percent higher than in the same period last year.

Sustained demand across business segments pushed revenue from operations 19 percent higher year-on-year to 582.29 billion rupees, crossing $7 billion for the first time in any quarter.

The revenue figures beat expectations but profits missed slightly, media reports said.

The Mumbai-headquartered company said the value of its order book declined to $7.8 billion at the end of December, compared to $8.1 billion at the end of September, albeit within the $7-9 billion guidance range.

The company, one of India's largest private employers, saw its employee headcount fall in the quarter as it continued to slow hiring.

Employee attrition—a key metric for the industry—fell to 21.3 percent, compared to 21.5 percent in the previous quarter.

Operating margins rose 0.5 percentage points compared to the September quarter to 24.5 percent, but contracted 0.5 percentage points year-on-year.

The company's board approved an interim dividend of 8 rupees per share and a special dividend of 67 rupees per share.

Shares in the firm closed 3.35 percent higher in Mumbai ahead of the results announcement.

Citation: Profits up but outlook 'cautious' at Indian software giant TCS (2023, January 9) retrieved 8 June 2023 from https://techxplore.com/news/2023-01-profits-outlook-cautious-indian-software.html