GTL Industry-wise ranking in ET500

IT sector: Desperately looking for backups The ET500
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The IT sector has been reeling under the pressure of margins….forget high profitability; forget invigorating growth rates! What has been the cause of this inevitable decline in profit growth? Is it something that can be stemmed in the recent future?
Well, sadly, no.

So what is the growth engine in this bleak scenario? BPO, which has started to make a mark on the turnovers of companies, has an immense potential for growth. High-end, high-margin activities like consulting can be a blessing of sorts. It will be a slow journey now for software firms. The success of Infosys' second ADS issue offers some hope.

SWIMMING AGAINST THE TIDE - Market Cap Toppers

At No 5 in ET500, Infosys has displaced Wipro in terms of the highest rank for market capitalisation in the IT sector. However, the sector as a whole has witnessed an erosion of 18% in market cap since the last issue of ET500

Life on the bourses has been tough for the IT sector. The challenging conditions prevailing in the market have hit the sector in a major way. The overall sector in the ET500 has witnessed an erosion of 18% in the market capitalisation from the last issue.

Infosys and Wipro continue to be the players having the highest market cap. Infosys has beaten Wipro for the top slot this time. In the ET500, while the rank for Infosys has remained stable at 5, the rank for Wipro has moved downwards by 2 notches. In fact, Infosys and Wipro account for 68% of the total market capitalisation of the top 10 players. Other big players like Satyam and HCL Technologies are far behind them in terms of market capitalisation.

The top 10 players constitute 89% of the total market capitalisation of the IT sector in the ET500. This share has come down marginally from 90% for the last ET500. This high share is a proof of the fact that these 10 players have been determinants of the fate of IT in the stock market.

A majority of the players have lost their market capitalisation. The loss in market capitalisation has led to many players losing their ranks in the ET500. Satyam, Digital GlobalSoft, MphasiS and Polaris have moved downwards in the ET500 by 14 to 25 positions. However, i-flex, Moser Baer and Hughes Software are the notable exceptions to this trend.

The maximum downward movement has been witnessed by Polaris, which has slipped by 25 ranks. Doubts over the success of its merger with Orbitech have taken a toll. The 10 players listed have lost 61 ranks in the ET500 totally. Hughes Software and Moser Baer have prevented the situation from worsening by the gains recorded by them in terms of ET500 ranks.

Hughes has moved upwards by 23 positions, followed by 8 positions in the case of Moser Baer. The maximum gain in market cap has occurred in the case of Hughes Software, a straight jump of 77%. The market caps of i-flex and Moser Baer have gone up by 48% and 47% respectively.

A key reason for i-flex maintaining its sheen is its exceptional growth momentum, driven by its package 'Flexcube'. Moreover, the fact that 66% of its revenues are derived from products has helped it to maintain high margins. Moser Baer is the only hardware company featuring in the list for these top 10 companies by market cap. Moser Baer's foray into optical media products has saved the company from being hit by the declining market for floppy diskettes and also helped rev up its growth.

It's a Rough and Tumble: Rank In Terms Of Market Cap

Sector Rank	ET500 rank	Company	Market cap (Rs Cr)
1	5	Infosys	22,966
2	7	Wipro	21,654
3	27	Satyam	5,849
4	34	HCL Technologies	4,688
5	36	i-flex Solutions	4,623
6	67	Moser Baer (India)	1,643
7	73	Digital GlobalSoft	1,516

8	92	MphasiS	1,174
9	102	Polaris	1,012
10	108	Hughes Software	950

Back to Top

THE NUMBER GAME - Sales Busters

TCS is the leader of the pack in terms of sales. Its sales crossed $ 1 billion in FY '03. Even the guidance of Infosys for FY '04 does not come anywhere near this mark

The ranking by sales is widely disparate from that for market capitalisation. The ranking takes into account the consolidated figures for companies. CMC's revenues have been excluded from the sales of TCS, since CMC also features in the ranking.

TCS, Wipro and Infosys are the software companies amongst the top 10 that have grown at rates higher than the industry. In the list, amongst the software services companies, the highest growth has been recorded by Infosys. The turnover of the firm has increased by 40% over that for the last year. Infosys has once again proved itself.

TCS is the leader of the pack in terms of sales. Its sales have crossed $ 1 billion in FY '03. Even the guidance of Infosys for FY '04 does not touch this mark Thus, TCS is very much ahead of the industry. However, like a majority of the companies in the industry, the firm's growth rate has been coming down over the years. From a high of 49% in FY '01, it has come down to 20% in FY '03.

BPO outfits have made significant contributions in the case of Wipro and HCL Technologies, amounting to more than Rs 140 crore to the turnover of the company.

Satyam, NIIT, HCL Technologies, CMC and GTL have grown at lower-than-industry rates with CMC registering the lowest growth of 7% amongst the 10 companies. Currently, it is deriving benefits from the synergies with TCS, especially in tapping the overseas markets.

Satyam recorded a mere 13% growth over FY '02, despite the company witnessing increased business on from the verticals - retail and healthcare. The evolution of the offshore model and increased adaptability from the same were the main drivers of this growth.

The sales of both HCL Technologies and GTL have grown by 17% for the period April '02-March '03. Moser Baer clocked the highest growth amongst the 10 players at 57% for FY '03 over FY '02, on the back of its strategic decision to go for optical media products. In terms of sales, however, it is a long way from the likes of TCS and Wipro.

"Last year we announced that TCS will become a billion dollar organisation and today we are glad to announce the development. This principle of sticking to our commitment has been fundamental to the organisation's success for over three decades." **-S Ramadorai, Tata Consultancy Services**

Brand Leaders: Rank By Sales

Sector Rank	ET500 rank	Company	Sales (Rs Cr)
1	NA	TCS	5,012
2	7	Wipro	3,888^
3	5	Infosys	3,640
4	27	Satyam	2,222
5	173	HCL Infosystems	2,417@
6	34	HCL Technologies	1,809*
7	67	Moser Baer (India)	1,070
8	163	NIIT	730#

9	139	CMC	672
10	166	GTL	640

^ for IT business @ annualized total revenues
* for the period Apr ’02-Mar ’03 # for the last four quarters
Source: ETIG database and company consolidated reports

Back to Top

KEEP IT FLOWING - Profit Boomers

In the final analysis, it's the moolah that matters. The top 10 players have witnessed an increase of 9% over last year's profits

On an aggregate basis, the net profits of the top 10 players have witnessed a minor increase over that of last year, amounting to 9%. However, the individual players have put up vastly varying performances.

A case in point is Satyam. The group posted an impressive performance even in adverse conditions. Its net profit increased by more than four times to Rs 347 crore in FY '03, up from Rs 79 crore for FY '02. This propelled it ahead of HCL Tech, Moser Baer, i-flex, GTL and Digital GlobalSoft, which had registered higher profits in FY '02.

However, these figures are very different for the standalone company- its net profit at Rs 307 crore fell by 32% from that for the previous year. This is a clear indication of the improved performance of its subsidiaries.

The net profit for Wipro includes all its businesses including consumer care and lighting, since the figures were not available just for its software business. The profits have fallen down by 7% from FY '02, from Rs 885 crore the year before. This was higher than the Rs 800-crore profit posted by Infosys a year ago.

Infosys has managed the highest profits for the year, about 16% higher than its nearest competitor. This difference would actually be much higher since PAT just for Wipro's IT business would be less than the figure stated in the table. Thus, Infosys has strengthened its position in the IT space.

Apart from Infosys and Satyam, the other players that have posted an increase in profits amongst the 10 listed are MphasiS, i-flex and Digital. The performance of MphasiS and i-flex has been laudable, with profits jumping by 63% and 49% respectively in FY '03 over FY '02.

The highest drop in net profits (33%) has taken place for HCL Tech in the league of the big companies for the period Apr '02-Mar '03. The reasons for the decline in profits for the company are the overall margin hit that the entire industry is subject to, in addition to the disheartening performance of the subsidiaries. Three to four of its subsidiaries have been making losses, thereby denting the bottomline of the firm.

Surprisingly, the change in the net profits of companies like Satyam, HCL Tech, Moser Baer, GTL and MphasiS, is quite different from that of the operating profit. Other income, and depreciation and amortisation have played a role in impacting their net profits.

"The Global Delivery Model has become mainstream as offshore outsourcing gains momentum."
-Nandan M Nilekani, Infosys

In Good Company:
Rank By Net Profit

Sector Rank	ET500 rank	Company	Net Profits (Rs Cr)
1	5	Infosys	955
2	7	Wipro#	821
3	27	Satyam	347
4	34	HCL Technologies*	341
5	67	Moser Baer (India)	243
6	36	i-flex Solutions	171

7	73	Digital GlobalSoft	106
8	166	GTL	80
9	181	Rolta *	77
10	92	MphasiS	67

for the entire company
* for the period Apr ’02–Mar ’03
Source: ETIG database and company consolidated reports
Unlisted companies are not included since figures for them are not available

Back to Top

FIGHTING FIT - Margin Drivers

IT companies are pulling out all stops to push up operating margins against margin pressure and intense competition

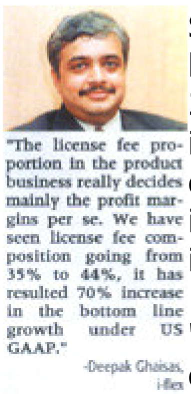
Here is the pecking order for the companies in terms of profitability. Moser Baer has the highest margin; it is also the only hardware company in this hallowed list of high-margin companies. The 10 companies listed definitely deserve a round of applause in this era of margin pressure and intense competition.

Companies with sales less than Rs 100 crore have not been considered in the ranking. Infosys has led the software companies in the ranking by operating profit margins. A surprising phenomenon is that only three players have witnessed erosion in the margins amongst the 10 listed, namely, Infosys, Moser Baer and Digital GlobalSoft.

i-flex has stabilised its margins at 30%, hardly any change from 29% for FY '02. It has a 71% exposure to the US for its software services business, which undoubtedly has hit the company, as the rupee has been appreciating. To counter this, the company had started increasing its exposure to Europe to derive gains out of an appreciating Euro. Further, the products business, which generates higher margins due to the license revenues and the implementation fees, is helping the company on the profitability front.

The margins have increased for VisualSoft, SSI, Satyam, e-Serve and Polaris. Satyam has enjoyed the highest increase in margins amounting to 8%, followed by VisualSoft, whose margin has expanded by 7% from the previous year.

When a majority of the players in the BPO sector are struggling to make profits, e-Serve has made its mark. The fact that it is a captive BPO player, having Citibank as its customer, has helped it in this regard. However, its margins are lower than that of Wipro Spectramind. e-Serve's large domestic business could explain this difference.



SSI, which ranks fourth by operating profit margin (OPM), has its net profit margin at 1%, much lower than its OPM at 31%. This can be accounted for by a decline in the other income and the increase in the interest paid. Other income declined by about seven times to Rs 3 crore whereas the interest paid doubled to Rs 11 crore, resulting in an adverse impact on the net profit.

"The license fee proportion in the product business really decides mainly the profit margins per se. We have seen license fee composition going from 35% to 44%, it has resulted 70% increase in the bottom line growth under US GAAP." -Deepak Ghaisas, i-flex

The Pecking Order: Rank By Operating Profit Margin#

Sector Rank	ET500 rank	Company	OPM (%)
1	67	Moser Baer (India)	37
2	5	Infosys	35
3	232	VisualSoft	34
4	385	SSI	31
5	36	i-flex Solutions	30
6	73	Digital GlobalSoft	29
7	166	GTL	29
8	27	Satyam	25

9	130	e-Serve	25
10	102	Polaris	24

(profit before interest, depreciation, tax and other income)/net sales
Source: ETIG database and company consolidated reports
Unlisted companies are not included since figures for them are not available

Back to Top

MEN AT WORK - Staff Caretakers

While software companies have taken hits on all fronts, they have consciously taken all possible measures to see that the employees do not have to suffer

Even as software companies are absorbing hits on various fronts, the employees do not have to suffer. Digital, Infosys, Satyam, iGate Global, i-flex, Tata Infotech, Hughes and NIIT have witnessed an increase in staff costs per sales in the range of 1-4%. The ratio of staff costs to sales is highest for iGate Global, followed by Digital GlobalSoft.

For the purpose of ranking, staff costs and sales of just the standalone entity have been taken into account.

Interestingly, the increase in staff costs surpasses that in the sales and profits for the industry to a large extent. The staff costs of the IT sector represented in the ET500 have gone up by 27% in comparison to a mere 15% increase in sales for FY '02.

The increase in the staff costs primarily arises out of two reasons - increase in the number of employees as well as increment in the salaries and allowances. i-flex and Infosys enjoy the highest increase in the staff cost in FY '03 over FY '02, tantamount to 58% and 50% respectively.

However, the absolute increase in the salaries and allowances is higher for i-flex. While the number of employees for Infosys has increased by 38%, its staff cost has increased by 50%. On the other hand, the staff cost augmentation in i-flex is 58%, compared to just a 15% increase in the employee strength over the year.

At the end of the day, however, you need to compare the staff cost per employee of the companies. With regard to Satyam, the staff costs/employee are around Rs 10 lakh per annum, second to that of Infosys at Rs 11 lakh per annum, whereas that for i-flex is around Rs 7 lakh per annum. The surprising thing in such a scenario is that Infosys employees are disgruntled with their salaries and one can find their CVs floating in the market. The staff costs per employee for NIIT are still lower, standing at Rs 3 lakh per annum.

HCL Tech is the only company amongst the 10 players whose staff costs have come down by 4% inspite of the sales increasing by 27%. In the case of Hughes Software as well as NIIT, the proportion of staff costs to sales has increased by 2%. Thus, even in the face of decreasing sales by 4-6%, the staff costs have increased by 2-3%, thereby indicating the extra attention devoted to their employees.

"Today, Satyam is the youngest among twenty or so leading global IT services players to have a manpower strength of over 10000."
-B Ramalinga Raju, Satyam

Head Count: Rank By Staff Cost

Sector Rank	**ET500 rank**	**Company**	**Staff Cost (Rs Cr)**
1	5	Infosys	1,677
2	27	Satyam	981
3	216	iGate Global Solutions	259
4	73	Digital GlobalSoft	209
5	34	HCL	164

		Technologies*	
6	36	i-flex Solutions	163
7	139	CMC	120
8	208	Tata Infotech	116
9	108	Hughes Software	101
10	163	NIIT*	101

* annualised
Source: ETIG database Unlisted companies are not included since figures for them are not available