Infosys Q2 revenue rises 3.8% to ₹22,629 crore

Raises revenue guidance for FY20 on the back of strong large-deal momentum

OUR BUREAU
Bengaluru, October 11

Infosys seems to have regained its mojo during the second quarter with the IT major revising its lower end of the guidance upwards on the back of huge deal momentum of $2.8 billion.

The country's second-largest IT services company posted a 6.2 per cent growth on a sequential basis to ₹4,037 crore during the second quarter of this fiscal, while revenues grew 3.8 per cent to ₹22,629 crore during the same period.

On a year-on-year basis, net profit dipped a little by 1.8 per cent because of the increase in the cost of sales which went up by 13.5 per cent. Revenues for the same period grew 9.8 per cent. Employee benefit-cost and cost of technical sub-contractors were the major contributors to the increase in cost of sales. Operating margins were up 1.2 per cent to 21.7 per cent on a sequential basis. The company revised the lower end of the guidance in constant currency to 9 per cent from 8.5 per cent earlier; but kept the higher end pegged at 10 per cent because of the traditionally weak quarters of Q3 and Q4 ahead. It also said that there was a robust demand in financial services, energy and utilities and high tech and telecom.

Scan & Share

In dollar terms, net profit grew 4.7 per cent to $572 million, while revenues grew 2.5 per cent to $3.2 billion on a sequential basis.

Analysts' take

Analysts cheered the results but pointed out that they were surprised by the fact that Infosys did not raise the guidance at the upper end despite the confidence of strong order book as well as the first half of FY20 revenue performance.

"Infosys Q2 results were broadly in-line with expectations as compared to the disappointment with TCS. A 3.3 per cent QoQ constant currency revenue growth with 120 basis points improvement in operating margins sequentially keeps faith alive on Infosys' recovery through FY20," Emkay Global Financial Services in a note to its investors said.

The company's margins, too, expanded after five straight quarters largely because of high-margin digital deals and improvement in operational parameter and cost efficiencies. It maintained the FY20 operating margin guidance range of 21-23 per cent.

Digital revenues, as a percentage of total revenues, during the second quarter was 38.3 per cent compared with 35.7 per cent during the previous quarter. About $1.2 billion of revenues came from digital and $1.98 billion came from core.

In terms of geographical growth, Europe was a bit slow because of Brexit issues, while in terms of deal wins the total contract value was 75 per cent higher than the first half of the same period last year. Four of the deals were from financial services, four from retail CPG and logistics and two from communications and three from other verticals. Of these, six were from the US, five from Europe and two from the rest of the world.

(from left) UB Pravin Rao, COO, Infosys; Salil Parekh, CEO and MD; and Nilanjan Roy, CFO, at a press conference to announce the Q2 results, at Infosys' Electronics City campus, in Bengaluru GRN SOMASHEKAR

Attrition

"Our performance was robust on multiple dimensions — revenue growth, digital growth, operating margins, operational efficiencies, large deal signings and reduction in attrition", said Salil Parekh, CEO and MD. "All these are clear signs that we are progressing well in our journey of client-centricity and maximising value for our stakeholders."

Voluntary attrition fell to below 18 per cent because of several employee engagement measures. Attrition on a standalone basis dropped to 19.4 per cent compared with 21.5 per cent on a sequential basis.

The company declared an interim dividend of ₹8 per share. Infosys shares rose 4 per cent to ₹815.70 on the BSE at the end of the trading session on Friday.

No brakes on free fall

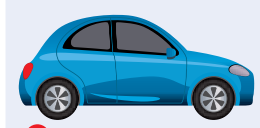
How the numbers stack up: Domestic sales across categories continued to decline in September. Not only passenger vehicles, but two-wheeler and commercial vehicle sales, too, declined steeply YoY. In the commercial vehicle segment, sales of medium and heavy commercial vehicles (M&HCVs) plummeted 62 per cent Y-o-Y to 14,855 units (39,210 units).

TOTAL SALES
22.4%
20,04,932 UNITS

PASSENGER VEHICLES
23.69% | 2,23,317 units

The total passenger vehicle sales declined around 24 per cent YoY to 2,23,317 units (2,92,660 units). This was despite new launches and festival offers during the month.

CAR SALES

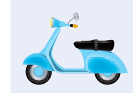


33.4% 1,31,281 units

Sales declined more than 33 per cent to 1,31,281 units (1,97,124 units).

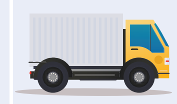
TWO-WHEELERS
22.09% | 16,56,774 units

Motorcycles
23.29%
10,43,624 units



Scooters
16.6%
5,55,829 units

COMMERCIAL VEHICLES



39.06%
58,419 units

MEDIUM AND HEAVY CVs
62.1% 14,855 units

THREE-WHEELERS

3.92%
66,362 units

UTILITY VEHICLES

This is the only segment which is growing right now — not only on a month-on-month basis, but also Y-o-Y basis. New launches over the last few months have boosted demand. Also, more customers are shifting towards this segment.

***Outlook:* The automobile industry is still going through a tough period, but it has started to see much higher footfalls and sales conversion. SIAM is hopeful that the industry will see some improvement over the next few months.**

Source: SIAM

IT major weathers global macro headwinds

ANALYSIS

VIVEK ANANTH
BL Research Bureau

Infosys posted a 6.2 per cent rise in consolidated net profit in the September quarter at ₹4,073 crore compared to the quarter ended June, helped by good performance of financial services, manufacturing and energy, and utility segments.

The company seems to have weathered the global macro-economic slowdown with revenues growing 3.8 per cent quarter-on-quarter to ₹22,629 crore helped by growth in Europe and North America.

The company reported earnings before interest and tax (EBIT) margins of 21.7 per cent during the quarter compared to 20.5 per cent in the June quarter. This is near the middle of its 2019-20 margin guidance of 21-23 per cent.

During the quarter ended September, Infosys won $2.8 billion worth of projects compared to $ 2.7 billion in the June quarter. Infosys upped the lower band of its revenue growth guidance to 9-10 per cent from 8.5-10 per cent.

Scan & Share

Segmental performance

Financial services segment saw revenues rise 4.2 per cent quarter on quarter, faster than the growth seen during the June quarter.

Manufacturing segment saw revenues rise by 7.9 per cent compared to a fall of 1.8 per cent during the quarter. This shows that despite the global macro-economic slowdown, the company is posting good revenue growth.

Despite a robust performance overall during the quarter, the slowdown did show up in the company's retail segment's performance. Revenue from retail segment fell 1.4 per cent during the quarter to $488 million.

This segment usually bears the impact of macro-economic slowdown, the company's management said. Revenue from communication segment fell 2.7 per cent.

Most geographies performed well during the quarter ended September.

Geographical performance

There seems to have been no major impact of the slowdown in Europe on the company's revenues from the region. Revenues from Europe grew 4.7 per cent in the September quarter compared to June.

The North American region saw revenue growth to slow a bit. In the quarter ended September, revenues from North America rose 2.2 per cent sequentially compared to 3 per cent in the June quarter. Rest of the world saw revenues falling 3.2 per cent QoQ, while India revenues posted a 20.4 per cent sequential growth rise during the quarter.

Auto-comp maker PCL to venture into e-mobility

OUR BUREAU
Mumbai, October 11

Precision Camshaft Ltd (India), the Solapur-based auto component manufacturing company, plans to make inroads into the electric mobility space using the expertise of two German companies it acquired recently.

The company — through its wholly-owned subsidiary PCL (International) Holding BV in Netherlands — had bought 76 per cent stake in MFT Motoren and Fahrzeugtechnik GmbH in Cunewalde, Germany, and 51 per cent stake in EMOSS Mobile Systems BV, a Dutch electric mobility company, cumulatively for about ₹100 crore.

With the acquisition of EMOSS, a maker of electric power trains, delivery vans and trucks, PCL India has gained access to the matured electric mobility markets in North America, Australia and Europe.

Ravindra Joshi, Director, PCL India, said the acquisition of EMOSS has put the company in a unique position, particularly when automobile manufacturers in India are going back to the drawing board and chalking out plans to manufacture electric vehicles.

The recent acquisition in Germany has helped expand the client base, he said.

RCap's securities arm to buy out broking business

PRESS TRUST OF INDIA
NEW DELHI, October 11

Reliance Capital (RCAP) on Friday said its securities business arm will buy the broking and distribution vertical of the company as part of the asset monetisation plan for ₹164 crore.

Reliance Securities' business includes retail and institutional broking, third-party distribution, proprietary trading and structured products.

"This management buyout transaction is part of our ongoing asset monetisation plan and also reflects our stated intent to focus primarily on life insurance and general insurance businesses as a way forward," a Reliance Capital spokesperson said in the filing. The sale process is expected to be completed by March 31, 2020, the company said.

Shares of RCAP fell 12.28 per cent to ₹17.50 on the BSE.

In a bid to shut door on Ghosn era, Renault ousts CEO Thierry Bollore

BLOOMBERG
October 11

Renault SA ousted Chief Executive Officer Thierry Bollore just days after partner Nissan Motor Co chose a new CEO, a sign the carmakers are seeking to move past the Carlos Ghosn era and repair their troubled alliance.

Renault's board named Chief Financial Officer Clotilde Delbos as interim CEO, and will begin looking for a permanent replacement, according to a statement on Friday. Bollore, who served as Ghosn's second-in-command before taking the helm in January, will leave immediately.

"This comes as another blow for a company that urgently needs direction and stability," Evercore ISI analyst Arndt Ellinghorst said in a note. "We are worried that Renault's competitive position will further erode in an automotive world that's getting tougher by the day."

Resolving their differences is a priority for Chairman Jean-Dominique

Thierry Bollore

Senard and would be a prerequisite to reviving merger discussions with Fiat Chrysler Automobiles NV.

The French state holds a 15 per cent stake in Renault.

The French government has been pushing Renault and Nissan for months to repair their broken relationship and strengthen their three-way alliance with Mitsubishi Motors Corp.

Nissan CEO Hiroto Saikawa resigned in September following a scandal over pay, and this week the carmaker tapped Makoto Uchida, 53, the head of its China joint venture, as CEO, to work alongside new Chief Operating Officer Ashwani Gupta.

Signify Innovations bets on connected homes, smart cities mission for growth

SHOBHA ROY
Kolkata, October 11

Signify Innovations India Ltd (formerly known as Philips Lighting India Ltd) is expecting a good growth backed by the demand due to smart cities mission in the next two years. The growth would also be driven by its smart hubs, which provides connected lightings to homes, smart lighting and decorative lighting.

The company, which witnessed a 7-8 per cent growth in the first half of this calendar year, expects growth to be "slightly muted" during the remaining half of this year due to overall economic slowdown.

"Q1 was good for us. In Q2 we saw some projects getting delayed due to elections…… in Q3 we were expecting to get the growth back but it looks like it is getting slightly delayed. It is bit more muted. It will take another three-to six months for things to start picking up," Sumit Padmakar Joshi, CEO, Signify Innovations India, told *BusinessLine*. The company follows calendar (January-December) year.

The company holds over 25 per cent share in the ₹15,000 crore worth lighting market in India.

Apart from lighting, it is also into modular switches business, which is still a small part of the total business.

"We are working with several municipal bodies to upgrade their lighting under the Smart Cities mission. More cities are going to get added over the next two years as the demand due to the smart cities mission will only increase with time," he said.

DP World launches accelerator programme for logistics start-ups

OUR BUREAU
Mumbai, October 11

Log-X plans to onboard up to 10 start-ups that will be mentored by DP World leadership team

Dubai-based ports operator DP World launched its accelerator programme LogX to help technology start-ups in the logistics sector.

Speaking at the launch of the programme, Mike Bhaskaran, Chief Technology Officer, DP World Global, said, "It is always interesting for us to interact with start-ups because the brightest and the freshest ideas come up from there." The programme has an application process that extends for 45 days after which, there would be a boot-camp where they (start-ups) would interact with different business units and the technology team at DP global that will short-list them.

Rizwaan Soomar, MD and CEO, DP World sub-continent, said, "A 10 per cent fall in (logistical) cost can lead to an 8 per cent rise jump in exports. So, the cost of logistics is very important for the development of the country. We have a direct role to play."

The programme was launched in partnership with the Kerala Start-up mission.

Dalmia Cement sees uptick in sales, thanks to govt's infrastructure push

SHOBHA ROY
Kolkata, October 11

Dalmia Cement (Bharat) Ltd is expecting a moderate growth in cement sales this year backed by government's thrust on the infrastructure sector.

According to Ujjwal Batria, Chief Operating Officer, Dalmia Cement, demand is expected to pick up starting mid-October this year.

Focus on infra

"The cement market has been either flattish or even seen a small negative growth in Q1 and Q2. But looking at the way things are moving now, though I would not expect a high double-digit growth in Q3 and Q4, 5-6 per cent growth backed largely by infrastructure is what we are expecting. This will, however, depend on a number of factors," Batria told *BusinessLine*.

Most of the negatives for the cement industry are the monsoon and the festival season will be over by mid-October. The liquidity is expected to improve moving forward with the government releasing money in the market.

All these coupled with government's focus on infrastruc-

Ujjwal Batria, COO

ture will help drive demand, he said. Dalmia Cement currently has a total capacity of around 26 million tonnes per annum (mtpa) across its 12 manufacturing units.

The company is expecting to commission an additional 4-5 mtpa capacity by March 2020. The total investment on the expansion is close to ₹3,000 crore in phases.

Price outlook

The demand growth is likely to help firm up cement prices by 2-3 per cent moving forward.

"The price drop in the eastern markets has been steep due to slightly lower demand this year and also the monsoon. But this is not surprising; we have seen this kind of cycle in the past also and we have seen the cycles going up in Q3 and Q4. So, that is what we are hoping this year," he said.

L&T Construction bags mega overseas, domestic orders

OUR BUREAU
Mumbai, October 11

L&T Construction has bagged a slew of orders for its power Transmission & Distribution and Metallurgy & Material Handling businesses.

These orders have been classified as significant, which means that they are valued in the range of ₹1,000-2,500 crore.

The company has won an Engineering Procurement and Construction (EPC) contract in Mozambique for a 400kV overhead transmission line between the towns of Chimuara and Alto Molocue in Zambezia Province.

L&T has also bagged a project for the design, supply and construction of a 220kV substation project from one of the government utilities in the UAE.

Domestic orders

The company has orders for modernising the electrical distribution network in the Gurugram Smart City project in Haryana, besides an order for the construction of 765kV and 400kV transmission lines in the Kutch region of Gujarat.

The Metallurgy and Material Handling Business of L&T has bagged an EPC order from NTPC Ltd.

'Given the current market conditions, Air France-KLM not in race for Air India'

ASHWINI PHADNIS
New Delhi, October 11

THE BL INTERVIEW

The Air France-KLM combine "is not studying the Air India" disinvestment programme, Welmer HT Blom, Senior Vice-President, Commercial, Sales and Marketing, Middle East, Gulf and India, has said. On the sidelines of an event to mark 100 years of KLM on Thursday night, Blom spoke to *BusinessLine* on a wide range of topics. Excerpts:

The Air India disinvestment is coming up. Is that something the Air France-KLM Group will be interested in?

At the current moment, we are not studying this disinvestment.

Given that India is a growing market, you will get access to many new stations, so isn't bidding for Air India an exciting prospect?

If you say it like that (then) yes. India is a strategic market for Air France-KLM. We have shown our commitment to India based on the fact that we have increased our capacity by 30 per cent this winter. We have introduced Bengaluru as a new destination this winter. India is key for us. That is why we joined Jet Airways. But that turned out a bit different than we expected.

Air India is something different. For Air India, you need deep pockets and you need to change a lot. The privatisation of Air India has been on the table for a long time. We, at Air France-KLM, do not see that as the right way forward for India.

The privatisation of Air India has been on the table for a long time. We, at Air France-KLM, do not see that as the right way forward for India

WELMER HT BLOM
Senior Vice-President, Air France-KLM

Given the current conditions, we are not on the table. I will not exclude anything for the future. But it is not logical for the Air France-KLM strategy now to move forward to sit on the table for a discussion on investing in Air India.

Scan & Share

What impact has Jet Airways' ceasing operations had on the transfer of traffic between Europe and the US, which was being ferried on Jet Airways?

It has had a huge impact. You cannot imagine how much impact it had for us. India is a strategic market and we chose Jet Airways as our strategic partner. We were cooperating with Jet Airways for over 25 years. So Jet Airways for us was the logical choice. It moved its operations from Brussels to Amsterdam, which accelerated the cooperation. It was very profitable for Jet Airways to fly into Amsterdam.

I feel very sorry for Jet's 17,000 employees. I do not think they saw it coming. We did not see it coming.

Please realise the way we built together, 50 per cent of our capacity to Charles De Gaulle in Paris and Amsterdam, which was served by Jet Airways, and the remaining by Air France-KLM. Three wide-body aircraft arriving every day in Schiphol (Amsterdam), bringing Air France-KLM and Jet Airways' passengers to our hub.

On April 16, it was gone. 80,000 passengers with Air France-KLM tickets suddenly did not have flights any more. We had to re-accommodate them on our flights. We increased capacity by adding flights, bigger aircraft. But as a scheduled airline, you only have a limited number of aircraft available.

This winter we have increased our capacity by 30 per cent and we are flying to Bengaluru.

Given that only Air India has wide-body aircraft, does that logically mean you will have to tie up with a low-cost Indian airline to increase your feed into and out of India?

We all know the aviation landscape in India. There are not that many potential partners. Theoretically, Air India could be a potential partner as it has wide-body aircraft. At the same time, there are some other aspects of Air India's business which make this difficult.

Being forced to (opt for) low-cost is not necessary. All Indian airlines have international ambitions. They want to expand to Europe, so they could be partners. We are exploring our potential partner. Air France-KLM will like to have an Indian partner just to make sure we have feeds to our gateways in India such as Delhi, Mumbai and Bengaluru, and we also have beyond traffic and leading traffic into these gateways.

The Indian market is huge. It is 1.3 billion and just a small percentage of them flying.

So, you do not rule out tying up with a low-cost Indian airline?

We do not rule out anything. We look at opportunities.