

THE MANAGEMENT OUTLOOK

THE YEAR 2008

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The year 2008 started with a bang. Indian investors, corporates, analysts & economists were highly positive about India's growth trajectory. The Bombay Stock Exchange sensitive index (Sensex) crossed 21,200 in January 2008. India's exports grew 20.47%. The World Bank was estimating GDP growth in 2008 at 8.4%. The rupee was 39 to the dollar. Said Prime Minister Manmohan Singh: "We are aiming to raise economic growth to 10 per cent in the near future. There is a palpable sense of confidence in the country and optimism." Reserve Bank of India (RBI) Governor Y.V. Reddy was aiming at "4 per cent inflation by January 2009".

But as the time passed, Said Prime Minister Manmohan Singh: "Due

to the current international economic and financial situation, our growth rate may come down somewhat next year. However, we still hope to achieve 7-7.5% per cent next year." The Delhi based think tank ICRIER was estimating GDP growth in 2008-09 at 5.8% and 3.9% for the first half of 2009-10. India's exports declined 12.1 per cent in October, the first fall in seven years. And the Sensex was playing tidily-winks with the bears, trying to keep its head above 10,000. The year has seen a more than 50 per cent drop in the key index and a destruction of around Rs 3, 00,000 crore (\$600 billion) in shareholder wealth.

During the year, the biggest losers, of course, were the big boys. Reliance group



Chief Mukesh Ambani, who has displaced steel baron L.N. Mittal as the richest Indian, was around \$28.2 billion poorer, according to a Forbes study of The 40 Richest Indians. His net worth stood at \$20.8 billion. Steel baron Mittal – whose company Arcelor Mittal is listed in Europe and the US – has been harder hit because of the decline in international metal prices. Among other big losers are Ambani the Younger, Mukesh's estranged brother Anil

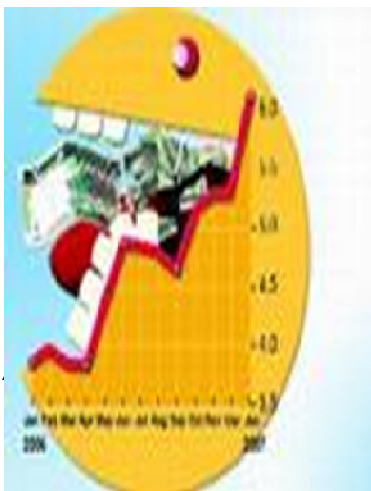


RECORDS OF 2008

Inflation 12.99%

Nifty 2,252

**Crude oil \$147/
barrel**



(\$12.5 billion), with the markets lopping a whopping \$32.5 billion off his market cap; real estate magnate K.P. Singh of DLF, who lost \$39 billion from his peak wealth; and the ubiquitous Mallya, who dropped from \$1.6 billion to \$390 million and got knocked off the list altogether. The total net worth of the top 40 fell 60 per cent during the year, from \$351 billion to \$139 billion. These numbers are also indicative of the fall in market cap of the groups, the three biggest losers being Mukesh Ambani's Reliance, Anil Ambani's ADAG group and Singh's DLF group. In comparison, 27 major listed companies of the Tata Group (chairman Ratan Tata doesn't aspire to be amongst the richest as the controlling interests in group companies are held through trusts) lost around \$26 billion in market map.

Ratan Tata began the year well with the takeover of Jaguar Land Rover. But things began to unravel very soon. The takeovers were expensive. A Tata Motors rights issue to part fi-

nance the Jaguar deal flopped. As Ratan Tata said in an email to his top brass at the end of the year: "Some of our companies with substantial foreign operations or those which have made substantial acquisitions are facing major problems in raising capital. Liquidity will continue to be a major problem." Then there was the Nano disaster. Tata had to steer out of Singur in West Bengal, as prolonged agitation over land acquisition and compensation norms got out of hand. The Nano has landed in Gujarat, but it is obviously going to be late and more expensive (even if a token car at a token Rs 1 lakh is pulled out of the hat). Finally, to crown a miserable year, there was the terrorist attack on the Taj in South Mumbai.

Both Tata & Ambani had happier early months; their problems started with the Indian economy feeling the heat of the global slowdown. For Anil Ambani, disaster struck in February. In January, he was on top of the world with his Reliance Power initial public

offer (IPO) attracting Rs 7,50,000 crore in subscriptions, a world record. "My desire is that every applicant gets the bare minimum share," said Ambani, even as the newspapers reported that the scrip, issued at Rs 430, would list at Rs 1,000 plus. Every successful applicant was regretting afterwards. Reliance Power ended at Rs 420 odd on the day of its listing and has since been scraping the bottom of the barrel. There have been other setbacks. An attempt to take over South Africa's MTN, a telecom company that would have added global muscle to his Reliance Communications (RCom), came a cropper. Today, reports NDTV: "Anil Ambani's love affair with MTN may soon be rekindled but the roles are reversed.....RCom is looking at raise \$2 billion by offloading around 26 per cent stake in the company."

What happened in the M&A arena, early in the year, outbound takeovers were the fashion. By halftime, the run of play was reversed. It was Daiichi Sankyo buying up the Singh

family controlling stake in Ranbaxy and DoCoMo picking up 26 per cent of Tata Teleservices. The arrival of Japanese investors is one of the trends of 2008. "India can certainly expect a lot more investments from Japan," says Arvind Mahajan, executive director (advisory services), KPMG. However, there are Indian companies that are waiting and watching potential acquisition targets abroad. Their ability to execute will obviously depend on their financial strength. But, Financial Strength may not sustain so easily in these troubled times.

The RBI under Reddy squeezed liquidity out of the system by hiking interest rates and impounding more bank funds through Cash Reserve Ratio (CRR) increases. The collapse of financial institutions around the world brought the system to a halt as no one was quiet sure who they could lend to safely.

One of the latest blow has come with the disclosure that Bernie Madoff, another Titan of Wall Street, has been running a \$50 billion

Ponzi scheme. Among those who have lost billions are HSBC Holdings, Spain's Santander, Nomura of Japan and Royal Bank of Scotland. The latest blow is of course Satyam Fiasco.

A few months back, Finance Minister P. Chidambaram had announced a waiver of small farm loans in his 2008-09 Union Budget. It penalizes borrowers who have honoured their loan commitments and creates a moral hazard.

When 2008 is remembered internationally, it will be principally for new US President Obama and the recession, the worst since the Great Depression of the thirties. And nobody is still sure which way the cat will jump. What else happened in India in 2008? There was the nuclear deal signed with the US.

There were some good moments too. India won its first individual gold medal in the Olympics when Abhinav Bindra shot his way to fame, the boxers did well too in both the Olympics and the World Cup, and Vishwanathan Anand retained his world

championship title.



CHANGING TRACKS

"Indian Companies will have to rethink their strategies"





Q3
Results

-DEPRECIATING RUPEE ALLOWED TO HIKE PROFITS

The earnings season for what was perhaps the most difficult quarter so far for most companies in recent years has kicked off with a pleasant surprise as India's second-largest software exporter Infosys Technologies reported an unexpected 35.5% growth in revenues and a 33.3% rise in profits, from a year ago. Clearly, India's bellwether IT Company has managed to ride out the rough sea. This performance was despite the global slowdown and uncertainty in the banking, financial services and insurance (BFSI). This was aided primarily by the addition of 30 clients by Infosys and its subsidiaries despite pricing pressure. The 1.1% sequential growth in revenues from North America, the company's largest market, too was unexpected given the depth of economic downturn. "In a chal-

lenging environment, our focus is on creating value for clients, running on optimized business, and evolving our business model that will allow us to emerge stronger when the global economy starts recovering," said CEO & MD S Gopalakrishnan. On one of the key parameter- the recruitment levels- Infosys fared well with no project cancellation despite the global meltdown. The gross employee addition was 5,997 during the fiscal.

The company's business model is equipped to thrive the tough market conditions. The Company had improved operational efficiencies & also performed well on account of non-operational expenses. As for the period, the company curtailed its selling & marketing expenses and administration expenses compared with the

previous quarter. Infosys had bigger exposure to BFSI; it saw more revenues from the banking and financial services space.

In the wake of recent concerns over corporate governance after Satyam financial fraud, the company disclosed the amount of money it has placed in various banks to boost investor and client confidence. The Company revealed a conservative cash management strategy with bulk of the money in deposit accounts with public sector banks in India. It had parked its 66% of extra cash with PSBs. The obvious question- why did they not shift to private banks? "The interest rates on bank deposits were favourable." Public sector banks had offered the company higher rates.

Where is Infosys cash?

(in Rs cr)

Bank Deposits*	Dec 08	Mar 08
SBI	2000	1000
PNB	535	0
Canara Bank	528	115
Syndicate Bank	500	0
State Bank of Mysore	500	0
Stan Chart Bank	240	0
Axis	0	250
Bank of India	0	500
ICICI Bank	10	1000

*List not exhaustive



Also, the relative risk in banking with them is lesser. As the slowdown had begun the private banks had begun tightening the screws and charging for every little service. Infosys decided to lean more towards public sector banks.

HOWEVER, COMPANY'S OPERATING MARGINS DURING THE QUARTER INCREASED PRIMARILY DUE TO A DEPRECIATION OF THE RUPEE. A DEPRECIATING RUPEE AGAINST THE US DOLLAR HELPED THIS MAJOR IT SERVICE PROVIDER AND EXPORTER TO MARGINALLY SHORE UP ITS REVENUE AND PROFIT FOR THE THIRD QUARTER ENDING DECEMBER 31, 2008.

In the dollar terms the topline was 3.7% down. If smaller IT firms such as Mastek did not manage to escape the impact of economic turmoil and currency fluctuations as evident from its slower 16% growth in profit. So, how could market leaders- Infosys escape sluggish growth. Infosys cannot escape the impact of economic turmoil. It is the depreciation of rupee against the dollar, that has allowed Infosys to present a rosy picture of Q3 results.

Further, the cut in its Q4 guidance (in dollar terms), indicates clearly that Infosys expects the deteriorating economic conditions to hurt its bottom line. Both revenues and profits

ROSY Q3 RESULTS

- Improved Operational Efficiencies
- Controlled Non-operational Expenses
- Bigger Exposure to BFSI
- Strong Business Model
- Addition of new clients

will be under pressure in 2009-10 and the growth in dollar earnings could be short of even 6-7%. It would face a challenging environment for the next 12 to 18 months.

