tradingideas

welling@weeden

May 12, 2000

A Soft Spot for Software-And the Y2K "Bug"

Jon Thorn pleads guilty on both counts. Then again his perspective is a tad skewed. The recovering journalist and Ph.D., for the last five years the managing director and portfolio manager of **The Indian Smaller Companies Fund Ltd.**, rode the bountiful coattails of an Indian software company's Nasdaq IPO to some sizzling performance for his fund last year. ADRs of the software firm, **Infosys Tech**, more than quintupled between their March '99 debut and yearend, helping Jon cap his offshore fund's fifth anniversary (the ISCF is registered in Mauritius, and its NAV listed in the *Financial Times*) by celebrating outperformance of massive proportions. The fund's NAV has outpaced the dollar-adjusted gain in India's BSE30 index by over 140% since inception, producing a compounded return, in US dollars, for that span of 12.5% a year.

Like everything else in tech, Infosys has seen its shares swoon in the second quarter; they're currently down about 35% from their highs, and could well go lower, Jon cheerfully acknowledges. But the Indian software sector's long-term story remains splendidly intact, he says, with Infosys reporting 97% earnings growth two weeks ago, right in line with its stunning five-year compounded earnings growth rate. A rate, Jon says, "that has no reason to fall of a cliff going forward". India has the second-largest pool of software engineers in the world, after the U.S., and an 18% share of the global market for custom software. "Infosys is adding 25 new clients every quarter; they are capturing market share. Margins are actually expanding." And Infosys owes it all, Jon chuckles, to the Y2K bug. "Without all that money, the Indian software industry wouldn't exist as it does today. Doing the downstream Y2K work for Oracle, etc. gave them the revenue stream to ramp up their supply of engineers and to get the client contacts to become a truly global company. Y2K created Infosys and there's no turning back."