



Financial Crisis and its Impact on Selected IT Industries in India

KEYWORDS

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ABSTRACT The study will focus on the current financial crisis and its impact on the growth, trade and employment in software industries of India. The business pages are filled with titles that inevitably include "FINANCIAL CRISIS". What it means; why is it so important; is there an alternative; are some of the questions this journal will try to dwell on.

Thesis will work on understanding the way the conventional financing works, and try to propose the Indian finance as a cushion for the current economic crisis. In order to do this, the two major parts of the thesis are taken by the explanation of the conventional finance on one, and Indian finance on the other hand. In the part which elaborates the financial crisis, it will be shown that only few of financial instruments are to be blamed for the crisis. Those are mortgages and some sorts of mortgage based securities. Therefore only those will employ our attention and comparable instruments existing in Indian finance will be elaborated.

The conclusion will elaborate on some issues and finally give an answer as to how can the crisis and Indian finance can come together. The emerging market economies are characterized as transitional, which means that they are in the process of moving from a closed to an open market economy. It is said that by adoption of neoliberal policies, the economy will suppose to lead to a better economic performance levels, as well as transparency and efficiency in the capital market.

INTRODUCTION:

The contribution of India's IT industry to economic progress has been quite significant. The rapidly expanding socio-economic infrastructure has proved to be of great use in supporting the growth of Indian information technology industry. The flourishing Indian economy has helped the IT sector to maintain its competitiveness in the global market. The total revenue from this sector was valued at 2.46 trillion Indian rupees in the fiscal year 2007. Out of this figure, the domestic IT market in India accounted for 900 billion rupees. So, the IT sector in India has played a major role in drawing foreign funds into the domestic market. Recession is a part of the business cycle. It's foolish to assume that business will grow despite recession. It's the length and depth of recession that determines business growth. The length of recession in the IT industry and its impact on Indian Economy is discussed in detail.

OVER ALL OBJECTIVE:

The aim of this research is to analyze what are the economic and environment effects of the selected IT industry

OBJECTIVE OF THE STUDY:

1. To know the details and structure about the IT industries.
2. To know the economic condition of IT industries & how it will be affected and developed the economy condition of the country.
3. To know the detailed types of IT capital investment and how it will help the investors to the growth and depression period.
4. To find out the frame work of both the concept of economic crisis in IT Industries
5. To discuss the causes of economic crisis to be experienced by the Indian economy.
6. To elucidate the nature and scope of practices of rapid financial innovation and growing culture of weak regulation.
7. To know the emergence of a new economy and expose of weaknesses in the economy.

SCOPE OF THE STUDY

The present study has been made to analyze the financial crisis

and its impact on selected IT industries in the year 2007-2013

METHODOLOGY OF THE PAPER

The impact of the Financial Crisis and Its Impact on Selected IT Industries in India

The data for the study has been collected from secondary sources

METHODS OF DATA COLLECTION

The data for the study has been collected from secondary sources. Secondary data had been collected from various books and journals. The study covers the thoughts and writings of various authors in the stream of industry, academician, and research. The journals and books have been referred were described in the bibliography.

EFFECTS ON INDIAN IT INDUSTRY:

Indian IT companies are well accredited for its quality software and services, well stated to be a major employment opportunity creator. Since, India has abundant labor resources and plays a major service provider across the globe. Many foreign companies are attracted to the Indian IT companies for its software development and for its service outsourcings. The recent outsourcing boom into India from the foreign countries mainly from US left an impact in the IT industry, which is accounted to be a major player in employment and foreign exchange. Approximately 60% of the Indian IT sector's revenue is fully based only on the US suppliers. Around 30% of the industry's revenue is generated from the financial services companies from US. Indian companies were appreciated for its flexibility in work, Quality product deliveries and for its efficient services. As there were no intense partnering between Indian firms and major financial services, major share of the IT firms were saved from the impact of the recession. Even though, some Indian IT companies partnered with US financial companies like Lehman Brothers Inc and Meryl Lynch Inc affected a little. This slowdown in the US economy led 70% of the firms to negotiate for lower rates with their suppliers and nearly 60% have cut back the contracts. The sudden fall in the US economy reduced the

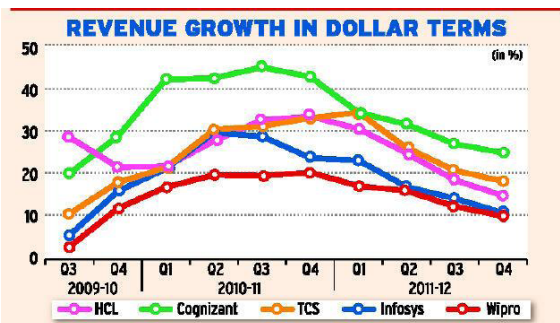
growth of Indian IT firms down by 2-3%.

IMPACT OF THERECESSION IT SECTOR IN THEINDIAN ECONOMY:

The current global economic slowdown has made it a roller coaster ride for the world economies. Asia / Pacific is experiencing a deferred impact due to the "domino effect" of the current crisis. With the expectations of a sluggish GDP growth and consequent reduction in IT spending, countries / markets which have a higher dependency on the export markets are expected to be affected more than other countries / markets with stronger domestic demand. India being one of the world's fastest-growing tech markets, thriving mainly on exports is also experiencing the tremors of the global economic crisis. IT spending as a percentage of revenue normally varies from 3.5% in manufacturing companies, 5-6% in global retail chains to about 9.5% in the banking industry. These could see marginal decline as companies will tend to hold spends on new IT deployment. A recent study focused that

- 43% of Western companies are cutting back their IT spend and nearly 30% are scrutinizing IT projects for better returns. Some of this can lead to offshoring, but the impact of overall reduction in discretionary IT spends, including offshore work, cannot be denied
- The slowing U.S. economy has seen 70% of firms negotiating lower rates with suppliers and nearly 60% cutting back on contractors. With budgets squeezed, just over 40% of companies plan to increase their use of offshore vendors.
- The IT services and outsourcing market is currently undergoing a structural transformation that will have a profound effect on how IT service providers will have to conduct their business. Customers have started to reduce project scope and / or postpone new development. However, they are also trying to move more work to lower cost offsite locations, which could increase IT budgets towards tangible cost saving measures.

Uncertain times ahead for Indian IT sector



Since the global financial crisis of 2008, India's IT industry has been unable to recreate the magic of its halcyon years from 2003 to 2008, when exports grew at a phenomenal 26 per cent compounded annual growth rate (CAGR), making it the darling of equity investors and creating blue chip behemoths such as Infosys, TCS, and Wipro.

After a brief recovery following the 2008 crisis, the global economy again appears to be going into a tailspin that has adversely affected both the U.S. and Europe, the Indian IT industry's key markets. This has led to heightened client caution on IT spends.

Intensified competition within the sector is exacerbating the pressure, which has impacted growth in billing rates and, consequently, revenues.

These factors are taking a toll on the Indian IT industry's growth, and causing a shakeout at the top, if the January-

March 2012 quarterly results of leading players are any indication.

For the first time in 47 quarters, Infosys, hitherto the bellwether of the sector, missed its revenue growth guidance. Its guidance for 2012-13 is just 8-10 per cent growth in U.S. dollar terms compared with the industry association National Association of Software and Service Companies' (Nasscom's) guidance of 11-14 per cent. Cognizant revised downward its 2012 revenue growth guidance to 20 per cent from 23 per cent earlier, citing slower-than-anticipated pick-up in demand in banking and healthcare verticals. Wipro did not give full-year guidance but said that it expected flat sequential growth in the April-June 2012 quarter. TCS was the only one of the biggies which adopted a more upbeat tone, saying that its deal pipeline was good and that it hoped to beat Nasscom's revenue growth estimate.

Clearly, the concerns regarding the sector's near-term prospects are not misplaced. Although India's IT services exports grew by a robust 19 per cent year-on-year in dollar terms in 2011-12, the trends in the last two quarters are worrisome. Hit by the continued macro-economic woes in developed countries that resulted in delays in project ramp-ups, the top four Indian IT companies grew at 17 per cent in the third quarter and 14 per cent in the fourth quarter, against a healthy 24 per cent in the first-half.

There does not appear to be any immediate respite, either. Crisis Research is of the view that the global economic uncertainty will persist in 2012-13. Consequently, IT services exports will grow at 12-14 per cent in 2012-13 in dollar terms, sharply lower than 19 per cent in 2011-12. Why this will be so is clear from the economic situation in the developed countries, particularly in Europe. In the last few quarters, GDP (gross domestic product) growth in Europe has come down appreciably due to the austerity measures taken by several governments to combat the sovereign debt crisis. This fragile economic landscape and an unstable political environment have severely dented the business prospects of many IT sector clients in the region. Indian IT vendors generate close to 20 per cent of their revenue from the European market, primarily the U.K. In the U.S., the downturn has also made the noises against outsourcing shriller, particularly in an election year. In addition, visa norms have been tightened and local hiring by Indian IT companies in the U.S. has gone up, consequently hiking their costs and slowing the growth of offshore services.

Some of the aftershocks of this global economic downturn are already visible. In 2011, global BFSI (banking, financial services, insurance) clients, who account for more than 40 per cent of Indian IT vendors' revenues, reported a dip in profitability due to lower revenue growth and pressure on margins. Telecom clients, too, have been going through tough times. As a result, the cash flows and discretionary spending of such large clients have come down significantly in the last few quarters of 2011-12 and is expected to remain subdued in the next few quarters.

VERTICALS:

The current US-led crisis parallels the 2001-2002 Dotcom Bubble burst especially for India's IT (export) sector. Approximately 61% of the Indian IT export's revenues are from US clients. If we consider the top five India players who account for 46% of the IT industry's revenues, the revenue contribution from US clients is approximately 58%.

This clearly indicates the adverse effect that the US recession is likely to have on the Indian IT sector. The industry has been constantly seeking to diversify its markets to offset its reliance on the US, which remains the largest outlet for India's software sector.

The impact has been more severe in the case of the Banking,

Financial Services and Insurance (BFSI), which accounts for around 40% of the industry's export revenues, and in retail and certain manufacturing sectors. Other verticals like telecom and automobile are also likely to have a delayed budget process and budget cuts. However, the industry focus is likely to shift to areas such as manufacturing, healthcare, retail and utilities. Healthcare industry is likely to witness increased

IT investments due to increased focus on public health. Other industries that will see growth include telecom, retail and utilities. Some vendors who have a greater exposure to BFSI segment will be more impacted when compared to their counterparts with less significant exposure (table on next page). The effect of this crisis would be more evident in the coming quarters. The overall revenue impact on the IT and ITES industry, as a result of the BFSI meltdown, could be anywhere between \$750 million and \$1 billion.

Exposure of BFSI (US \$)

COMPANIES	BFSI % SHARE	Jan 2008	April 2008	Change(%) Key BFSI client
Cognizant	292.40	314.20	7.46	(American Express, Citigroup, Credit Suisse, JP Morgan, MetLife)
Infosys	387.10	398.5	2.94	(ABN Amro, Bank of America, JP Morgan, Washington Mutual's, UBS)
TCS	664.40	648.20	-2.44	(AIG, American Express, Bank of America, Citigroup, Deutsch Bank, Fortis, JP Morgan, Merrill Lynch)
Wipro	256.80	271.10	5.57	(Credit Suisse, Lehman Brothers, UBS)

(*As a percentage of total revenue; BFSI contribution sourced from company reports, BFSI clients from equity analysts)

INFOSYS:

The revenues from BFSI that were at 37% in June 2003 have stayed more or less unchanged as a percentage of total revenues. In the December 2007 quarter, Infosys got close to 37% of its revenues from BFSI. This slipped to 34% of revenues in the March 2008 quarter. In the quarter ending December 2008, BFSI showed a sequential growth of 4% in volume.

WIPRO

India's third-biggest software exporter, and Cognizant, ranked sixth, have seen revenue from the key Banking, Financial Services and Insurance (BFSI) vertical rise by about a fifth between Oct-Dec 2007 and July-Sept 2008.

APRIL-JUNE 2008, COGNIZANT, recorded the highest growth from financial services vertical among the offshore peers. This was mainly due to the type of financial services clients in the portfolio and the multiple operating levels (table above).

TATA CONSULTANCY SERVICES, for example, earned 42% of its revenue in the second quarter of CY 2008 from the BFSI

IMPACT OF EXCHANGE RATE ON REVENUES:

In IT sector, the margins are likely to be challenged on account of the slowing growth in the US. Rupee depreciation seems to be the only tailwind that the sector enjoys. This can be evident from the fact that the out of the increase in the IT export revenues for FY 2008 over FY 2007, almost half of the increase could be attributed to the rupee depreciation during the same period.

PRICING POISED FOR DECLINE IN FAVOUR OF VOLUMES:

Pricing has been difficult in this sector compared to other sectors: On an average, the US financial sector has driven bulk volumes through lower on-site pricing, higher off-shoring and aggressive volume discounts. It is safe to infer that BFSI application business margins especially in the top companies are a few percentage points below the higher margin verticals like, say, energy. Hence, a replacement of financial services business with business from other verticals is likely to positively impact the bottom line. A speedy replacement is, however, easier said than done. Volumes are expected to remain weak over the next three quarters for most players forcing further price cuts. The reduction in pricing is expected to be lower in magnitude compared to FY 02-FY 03. This is because the current pricing has not touched the FY 02-FY 03 bubble proportions. Infosys has already reported 1.8% decline in blended pricing (constant currency) in Q3 FY 09 while HCL Tech announced free transitioning for deals amounting to \$1 billion bagged during the quarter as a strategy to garner volumes. TCS and Wipro too have acknowledged pricing pressures and the impact would be more visible in the coming quarters. Fitch Rating expects the sector to face margin pressures over 2009 and 2010 due to the intensified competition for new contracts, thereby putting pressure on billing rates. Competition even for smaller contracts has increased, as companies try to maintain utilization levels. Customer cost pressures could also result in renegotiations of maturing contracts at lower terms. There could also be an increased shift from traditional hourly billings towards a new return on capital based price contracts providing tangible savings, while variable time / material contracts could be renegotiated at lower levels. Vendor consolidation will be the order of the day in the current environment, as this would result in cost savings for customers.

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STEPS FOR RECOVERY:

Efforts made by the Reserve Bank of India to stop the depreciating rupee value led to a proportionate fall in the foreign reserves value of India. The Indian economy experienced a high inflow of money in the form of capital investment. This decreased the value of rupee with dollar; India faced a large trade deficit and factor payments abroad such as debt repayment and profit repatriation. Along with this the stock market side also showed a decline after its steady increase during previous months.

The government of India and the Reserve Bank of India started responding to this challenge by following various efforts and procedures in order to maintain a free flow position of rupee liquidity, maintain the foreign exchange liquidity and maintain its credit tracks through strict monetary policies to avoid inflationary pressures. But however, it changed its current approach towards the current scenario eased the monetary constraints by reducing the interest rates, reduced the quantum of bank reserves impounded by central bank and expanded with liberalization to refinance facilities for export credit.

To manage the foreign exchange, the Reserve Bank of India made an upward adjustment on interest rate ceiling on the foreign deposits by non-resident Indians. Substantially relaxed the external commercial borrowings regime for corporate. It allowed access to foreign borrowing to non-banking financial companies and housing companies. The Reserve Bank of India even took many unconventional measures to

boost up the economy from the liquidity scenario. Many Indian banks were given a currency swap facility especially for Indian rupee and US dollar to fulfill the short term fund requirements. IT also supported many non banking financial organizations through an exclusive refinancing channel. Housing and exports were boosted to reach higher levels by enabling the lending resources even to small industries.

In addition to the various efforts of the Reserve Bank of India, the Central Government of India constituted the Fiscal Responsibility and Budget Management Act to make the fiscal sustainable in the global economic crisis. The emergency act by the government of India seeks a relaxation from the fiscal targets. Two fiscal acts were launched. Both the fiscal acts valued around 3% of the GDP, which included agricultural farmer loan waiver, infrastructure investments, additional coverage for SMEs and public spending. These fiscals were injected to stimulate demand. As the result the amount accounting to 7% of the GDP made available in the financial system.

India is witnessing a mixed result of growth prospects in this economic downturn. The services sector which accounts for the 57% of the India's GDP and has been the prime growth engine in the last five years is slowing mainly in the construction, transport, communication, trade, hotels and restaurants. India's exports which account for 15% of the economy grew 3.4% to 168.7 billion in the fiscal year ended march 31'08, missing a target of 200 billion set by the government. Corporate margins were down due to the high input costs and the weakened demand. Business confidence had been affected due to the uncertainty in the economic condition.

India certainly had some advantages in this financial crisis. The inflation fell sharply, faster than expected, which is measured by the wholesale price index. Thus the fall in inflation should revive consumer demand and reduce costs for the corporate. Fiscal prices will open up the spending on the infrastructure developments as the decline in the global crude oil and naphtha prices will reduce the amount of subsidy given to the oil and fertilizer companies. Imports are expected to shrink more than the exports, to keep the current account deficits at some modest levels.

The banking system in India with its well capitalized and prudently regulated measures, helped to sustain the financial market stability to a larger extent. Gaining confidence from the foreign investors on Indian economy is an additional plus, due to the comfortable levels of foreign reserves. The negative impact of the wealth loss effect in the capital markets

that have plagued the developed countries will not affect India because majority of Indians have bordered themselves away from assets and equity markets. Credit for agriculture will also remain unaffected because of India's mandated priority sector lending. The farm waiver package from the government acts as an additional insulation to the agricultural sector. India's several social safety and awareness programs e.g. the rural employment guarantee program, will protect the poor and migrants from ill effects of global crisis.

CONCLUSION:

Thus the global financial crisis made a hit in the Indian economy. After severe uncertainties in various sectors such as IT industry in India, Financial market in India, Non availability of global funds and impact in the export business have given broader outlook to the impact of the global financial crisis, starting from US and how it had en route to India. All the fields were discussed with several insights on how the various industries have been affected by this economic downturn, some had opportunities to grow and some were flattened, since the Indian economy is one of the emerging economies in the world, which recorded to be the least affected by this economic crunch. Even government faced a wide range a problems during this credit crunch. The Indian Government and The Reserve Bank of India, worked collaboratively with consultation and coordination, after initiating and implementing various processes, rules and acts, kept this huge economic problem under control. Thus the global economic crisis is inevitable till the economy of the developed, developing countries become stable and self sustainable. The effects of the economic downturn are a test to check the financial stabilities in market and regulations across the global economy.

After watching so many positive points We Indians can ourselves that we are quite in a safer place in comparison to many countries economy. To conclude let's hope for a stronger India by rectifying all its economic weaknesses after this so called financial crunch. Hence, the growth of the public sector and the narrow reliance on financial services for growth needs to change, with manufacturing and exporters having particular attention paid to them. After watching so many positive points We Indians can ourselves that we are quite in a safer place in comparison to many developed countries economy.

To conclude, we are tempted to use a popular aphorism; the Chinese character for "Crisis" represents twosymbols "Danger" and "Opportunity". The choice is ours.

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