

# Challenges faced by indian it

Life



Uncertain global economy: The Indian IT outsourcing industry gets about 75% of its revenues from US and Europe. The renewed concern regarding the European sovereign debt has led to companies slowing down their IT spending. BFSI segment has been the biggest contributor to Indian IT revenues. As shown in the figure below, the recent turmoil in Europe & US has resulted in slowing demand in BFSI segment. Source: Business Standard

## **Protectionist Measures**

There have been periodic threats of the US stopping all outsourcing work. Rising US rhetoric against shipping of jobs to low cost locations ahead of US presidential elections in November might result in lower market shares for Indian IT companies. The US Senate will be looking into a bill backed by the Democratic party popularly known as the 'Bring Jobs Home Act'. If the bill is passed, tax benefits will be extended to companies that shift their work back to the US & will end tax incentives for those who send work offshore. On the other hand, Europe has quietly enforced visa restrictions making people difficult to travel onsite for work. . Tough competition from MNCs: Increasing competition from MNCs like IBM, Accenture who have set up bases in several of the IT zones earlier dominated by Indian IT firms. Also, US wages have been decreasing and are on par with Indian wages for some of the sectors. Outsourcing will be less attractive to American employers.

## **Pressure on Billing Rates**

Discounts from key financial sector clients is pinching IT firms. On 12th July, Infosys claimed that pricing has fallen by 3.7% in the June quarter from the previous quarter. As the growth in demand has fallen, firms are vying for the small pie by opting for price cuts.

## **Low Employee Utilization**

Increasing bench size has been reported across various IT firms. Employee utilization has fallen down to 67% for lot of Indian companies. Companies have to reserve certain human capital so as to accommodate them in case of future demand.

## **Volatility of Indian Rupee Against the Dollar**

Depreciating rupee helps the IT industry. Increase its revenues as most of the companies earn in US dollars. However, as the companies would have already hedged against rupee appreciation in advance, the currency volatility wouldn't affect much. Planning for the future becomes a problem. TCS is the largest software company in Asia and was one of the pioneers of the global delivery model. Its Q1 results have been slightly better than expected with 14.6% increase (over previous quarter) in Q1 profit at Rs 3280 crore with revenues at Rs 14869 crores. TCS has said that it is expecting to beat the forecasts of 11-14% growth in revenues set by NASSCOM for FY13.

According to the CEO, TCS has been seeing strong growth from markets like North America, UK & Europe despite the gloomy economic environment. 29 new clients were added in the June quarter. Successful execution of its restructuring much before its competitors has been one of the reasons of success for TCS. Also, it is more flexible than its peers when it comes to pricing. And is more open to the client's suggestions The fixed component is atleast 8-10% higher than that of its peers. Infosys is the 2nd largest Indian IT service provider and reputed for its work ethics & world class management practices.

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In the past by exceeding revenue expectations, it kept investors and analysts happy. But by failing to meet expectations in 3 of the 5 recent quarters, it has lost its status as the industry bellwether. It has cut down its revenue forecasts for FY13 to 5% down from its April estimate of 8-10% growth. The company has underlined weak macroeconomic environment, falling clients' confidence & fall in discretionary spending (spending by corporate which can be held back at discretion and are usually for long term benefits) as the reason behind its fall in revenues.

Critics have blamed the poor results on the change in leadership, its inability to motivate its employees when the morale is already down because of delayed and small pay raises, premium pricing in the face of slowing economic growth and its conservatism by not using its excessive cash pile (around \$3.7 billion as of June 2012) to make acquisitions that can make it a global company. The CEO said that Infosys is looking out for opportunities in product, consulting, platform space and system integration.

The company's strategy of positioning itself as a premier global consulting & system integration major has backfired since the economy has still not recovered from the slowdown. Wipro is the third biggest Indian IT firm and its revenues for the year 2011-12 stood at \$5.7 billion. It is betting on regions like Latin America, Asia Pacific and Ghana as they have been contributing almost 16-17% of the total revenues for Wipro. Wipro is also shifting its focus from telecom equipment vendors who have reduced IT spending to telecom analytics & mobile broadband where the end users are telecom operators. . HCL Technologies is the fourth largest Indian IT company. In the last 2 quarters, it has won deals worth \$2.5 billion and Europe has contributed

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almost 54% to it. It is strong in total IT outsourcing which comprises of infrastructure services, application development and maintenance. While most of the other Indian IT firms are vying for high-end consulting contracts, HCL has been focusing on infrastructure deals. Future prospects : In spite of the economic upheaval, Indian IT firms still feel that BFSI will bring in the maximum revenues.

The optimism is based on the fact that even clients were supposed to have cut spending during the credit crisis time, Indian IT exports have grown \$33 billion between 2008-09 to 2011-12. However all the IT firms have to get used to lower margins. Gone are the days when experienced 30% growth. IT firms have so far mainly relied on cost differentiation. To cope up with the various challenges, they need to start innovating. So they have to find new markets, new customers, develop products etc.

For eg: Wipro has started offering IT solutions to the petroleum industry in Ghana. Transformations are taking place as the use of cloud computing & mobile devices is slowly increasing. Infosys has added about 20 new clients in the past quarter in cloud, big data and security. With the increase in use of apps on mobiles, programs are being written for mobile. Also companies have started positioning themselves as IT consulting firms. In the near future, government of India might provide the impetus as it plans to go big on digitization.

The immediate future for IT companies may not be as bright as it was in the past. But companies should reboot its systems and log on to new sites The decade of 1990 was the golden era for information Technology in India. With

liberalization, privatization & globalization, Indian IT Sector took huge leaps in Information Technology. Today, with total revenues of about \$88.1 billion, Indian IT sector being one of the strongest industries worldwide has grown for more than 30% for more than 20 years.

Indian IT firms have moved up the value chain from low cost programming in the early years to providing premier global IT consulting services. Before the onset of recession in 2008, the IT industry flourished thanks to the exponential increase in global IT spending. During the recession, companies decreased their IT spending thereby slowing down the growth of the IT industry.

Intense competition has impacted growth in billing rates thereby affecting revenues. For the first time in 47 quarters, Infosys missed quarter's expectations. The major IT firms have reduced their growth expectations for the year 2012-13. The top 4 Indian IT companies grew at 17% in the 3rd quarter and at 14% in the fourth quarter as opposed to 24% in the first quarter in the last financial year and this is a cause of worry. The various verticals in the IT sector are shown in the pie chart. Achievements of the Indian IT sector in 2011: Increase in global sourcing industry from 51% in 2009 to 58% in 2011. Contribution to India's GDP has increased from 1.2% in 1998 to 7.5% in 2012. Due to the expansion in the IT sector in terms of form, volume etc, there is a continuous demand for engineering graduates, skilled workforce etc. Being a service oriented industry, this sector is highly dependent on manpower. While there is enough supply of graduates, it is very important for the labour to be technically competent and possess soft skills.