

## A STUDY ON FINANCIAL PERFORMANCE OF IT SECTOR IN INDIA

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### ABSTRACT

*IT i.e. Information Technology is one of the fastest growing sector in the Indian economy and has successfully created the niche in the global market in the span of last few decades. In the year 2017-18 the country contributed to approximately 55% of market share of the Global service sourcing business with a bold visible figures of this sector's contribution in the GDP of the country. India has become the digital capabilities hub of the world with around 75 per cent of global digital talent present in the country. Increased globalization and governments attention has further geared the performance of this sector quite positively. Thus the objective of the study is to analyze the financial performance of the IT sector in India . The study also is dedicated to analyze the trend of the financial performance of the very industry. The secondary data from the selected IT players are taken as base of the study and various quantitative tools are adopted to form financial prescience of IT sector operating in India.*

**KEYWORDS:** *IT, Financial Performance, Profitability, Liquidity, Solvency, Activity.*

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### Introduction

Financial performance is the scale of measuring the performance of every sector and so is the case with the IT sector. Financial performance has the positive relationship with the success rate of the Industry. "IT" is the acronym for "INFORMATION TECHNOLOGY", It is defined by the "Oxford Dictionary" (latest 8<sup>th</sup> edition) as - "The study or use of electronic equipment, especially computers, for storing and analyzing information." IT industry in India stepped in early parts of the year and since then it took the leverage of governments favorable policy and talent hunt in the country and banged the market with the beginning of 1970's, the sector picked the accelerated growth since the year 1995-1996 and is on an upward trend since then and has pipped all other sectors of the country. Since ages India has been designated a hub for the digital talents and account for approximately 75% of the global digital talent, the country shares approximately US\$ 185-190 billion of global - service sourcing business in the period 2017-18. IT & IT enabled services (ITeS) companies of India have above 1,000 global delivery centers' in approximately 80 countries throughout the world (As per IBEF report 2017-18). With the depicted success of the very industry this paper analyses the financial growth of the IT sector in India.

### Statement of Problem

IT sector has emerged as the backbone of the country; it has blossomed with the growth in employment generation, increment in exports, attracting FDI's and many more. The study of the performance of this sector calls for financial - analysis in order to form a causal relationship between the factors mentioned above. Financial analysis diagnoses the strength as well as the weakness of the sector. Hence the study is focused on the analysis of market size and segments of the sector to evaluate the financial performance of IT Sector of India.

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**Objectives**

The objectives of the study are as follows:

- To analyze the financial - performance of the IT sector companies of India with respect to their liquidity, solvency, activity and profitability positions.
- To understand the risk return pattern among three categories.
- To evaluate the upcoming initiatives in this sector and road ahead to it.

**Research Methodology**

Secondary data from the NASSCOM and IBEF are used to serve the purpose of the research. The opinion of financial performance of the IT sector is formed on the basis of following factors:

- Revenues and Growth rate of the industry
- Export generated by the IT Sector
- Variants like market size, Digital Acceleration, FDI, Automations, emerging challenges

**Limitations of the Study**

The research is limited to the annual publications of IBEF and NASSCOM and other publications of the Indian government hence the inherent risk of data is carried along.

**Literature Review**

- **Dr. Virender Koundal (2012)** quantitatively analyzed the profitability of the Indian banks. He divided the banks into strata based on different variables and then conducted the research using various ratios. He found that new banks were more efficient, smaller banks had better global approach and larger ones had good local efficiency. Their research found negative relation between profitability and number of accounts payables days and that of number inventory days while a positive relation between profitability and number of accounts receivables days. They concluded that shorter the cash cycle better is the financial health of an institution.
- **Dr. V.P.T. Dhevika, Dr. O.T.V. Latasri and H. Gayathri in (2013)** used ratio analysis to analyze the financial position of the CITY UNION BANK for a span of 5 years. They concluded that ratio analysis depicts the liquidity of the banks and the financial stability thereon.
- **Dr. Srividya and Aravid R (2013)** in their research on "The financial performance of Sakthi Finance limited" found that the current ratio more apt to measure the liquidity in case of banks and NBFCs and ROE is the tool to measure the profitability position of the company.
- **Dr. Idhayajothi, Dr. O.T.V. Latasri, N. Manjula, A. Meharaj Banu and R. Malini (2014)**, carried a study on financial performance of Ashok Leyland Limited, Chennai. For this purpose, they relied on ratio calculations like that of Activity ratios, Liquidity ratios, Profitability ratios, and Leverage ratios. They found that a company can maintain strong financial position despite of price drop in the ITS product(s) by operating a balance between the capital expenditure and the cash flows.
- **Asma Khan and Jyoti Singhal (2015)** in their study of ratio analysis of some selected IT Companies in for a span of 5 years found comparative results that HCL Technologies performed satisfactory except for "Return on Net Worth" and "Return on Long Term Funds" while Tech Mahindra was performing satisfactorily in terms of "Return on Net Worth" and "Return on Long Term Funds", on the other hand Wipro was giving average performances in the same comparative terms. Further the sample size showed significant difference in terms of "Operating Profit Ratio" and "ROE" while no significant difference was notices in the "Net Profit Ratio", "Gross Profit Ratio", and "Return on Net Worth Ratio".
- **Dr. M Ravichandran (2016)** analyzed the fiscal performance of "Force Motors" with the focus on profitability ratios of its industry, they further divided the financial ratios to present a compact picture of fiscal performance over a specified period of time. They concluded that financial performance can be enhanced by improvement in the operating income and controlling the selling and administrative expenses.
- **Sinha Mintibahen Bijendra and Dr Deepika Singhvi (2017)** conducted a research to analyze the profitability of the Indian Pharmaceutical sector for a time span of 7 years. They base their research on two factors i.e. a) Pharmaceutical sector being a defensive sector and b) Quite high cost of R&D, with no guarantee of assured returns. They concluded that firms which base their success on R& D generate profits in long run.

- **K.P.Venugopala Rao and Farha Ibrahim (2017)** performed financial analysis of the IDBI bank using ratios for a span of 5 years ranging from the year 2011 to 2016. They concluded that bank should rely on the deposits to fund their loaning facilities.

### Need for the Study

IT sector is the yardstick of influencing every other sector operating in the economy today. It is the thrust cavity on every level be it domestic or corporate. In India IT and IT enabled services (ITeS) industry achieved a growth upto the level of US\$ 181 billion in the year 2018-19 with a hike in exports of this sector to the level of US\$ 137 billion, during the said period the very sector added US\$ 44 billion to the domestic revenues of the country. With the initiation of the concept of “Digital India” the sector further gained the importance. It therefore becomes exigent to study the financial performance of such a cardinal sector of the country.

### Scenario of IT Sector in India

Indian IT's are the magnet of FDI in today's modern world and are the top priority investment preference by the major FDI players throughout the Globe. The sector successfully attracted cumulative Foreign Direct Investment (FDI) of US\$ 37.23 billion during the time span of 19 years i.e. time period of April 2000 and March 2019. According to the data released by the DPIIT (Department for Promotion of Industry and Internal Trade). IT sector ran among the other sectors of India in terms of FDI inflows to the country.

Infosys, TCS, Wipro and Tech Mahindra are the leading IT firms of India, these major players of the sector are on way to diversification through technical tools like that of in block- chain, AI (artificial intelligence) adapting innovation hubs, R&D centers etc. with these kind of differentiated offerings they are further adding to the magnitude of the hike of the sector.

### Financial Performance of the Indian IT Sector

Financial performance of the IT sector of India can be analyzed through the market size grabbed by the industry both in the terms of domestic and export market. The data released by the IBEF reports are as follows:

(All Amounts in US\$ BN terms)

Year	Domestic Market Size	Export Market Size	Total Market Size	Growth in total market share (%)
2010	24	50	74	-
2011	29	59	88	18.92
2012	32	69	101	14.77
2013	32	76	108	6.93
2014	32	87	119	10.19
2015	34	98.5	132.5	11.34
2016	35	108	143	7.93
2017	37	117	154	7.69
2018	41	126	170	10.38
2019E	44	137	181	6.47

Source: IBEF reports on IT sector

### Inferences

- Market creation is the best indicator to assess the financial health of a phenomenon.
- The market size of the IT sector of India has shown an average growth of US\$ 10 bn in total market size over the period taken for the study (2010-2018 and 2019E).
- During the period average growth in the domestic market size stood US\$ 2 bn while the same figure in stood at US\$8.7bn in terms of export market size.
- The slow pace of growth in the year 2016 and 2017 appeared in the domestic as well as the export market of the IT sector as a shadow of the Demonetization.

- The financial depression and deficit in the year 2013 and 2014 take a toll over the domestic market size of this sector but the sector managed to generate enough revenue to maintain the growth graph in positive and again rocketed by US \$ 2Bn in the year 2015 and is continuing in its up sides since then.
- Demonetization and GST did affect the sector but since IT sector managed to generate the average growth of US\$ 9BN during the said years it can be seen that it has a strong support level and is well capable of maintaining its revenues and market thereon.

**Financial Perform of Segments of IT Sector**

**(All Amounts in US\$ BN Terms)**

<b>Year</b>	<b>IT Services</b>	<b>BPM</b>	<b>Software Product &amp; Engg. Services</b>
2009	26	10	9
2010	26	12	10
2011	34	14	11
2012	40	16	13
2013	44	18	14
2014	52	20	14
2015	56	23	20
2016	61	24	22
2017	66	26	25
2018	70	28	28

**Inferences**

- IT sector comprises of IT Services, BPM and Software product & Engg. Services as major players, hence to analyze the financial performance of this sector; corresponding performance of these major players are taken into account
- All the players are at the positive statistics with an average growth of US\$4.4bn in IT services, US\$ 1.8Bn in BPN and US\$1.9bn in case of Software product & Engg. Services.
- The presence of the entire segment since inception marked a strong support level for their performance.
- No matter what the condition of the country’s economy stood during the period; all the segments always remained in their upward trends
- In the year 2014 Software product & Engg. Services managed their average growth from slipping away by maintaining the same level of revenue generation as that of the previous year which again geared in the year 2015 by US \$ 5 bn marking the revenue generation and capital creation facility of the IT sector operating in India.
- The year 2015 was the great year in terms of financial performance of all the IT segments prevailing in India.
- Though Demonetization followed by GST which again followed by election of central government; did marked spots on the average growth of the financial performance of the IT sector but still it managed to point North anyways.
- As per yearly 2019 report of The National Association of Software and Service Companies (NASSCOM), IT sector in India shares, approximately 7.5% of the gross domestic product (GDP).
- ITBPM (The Business Process Management) industry marked a growth by approximately US\$ 8.1 bn out of which the year 2016-17 alone contributed to US\$ 139.9 billion.
- Looking the pace of trend maintained by the IT sector of the country it can be predicted to grow further by 10% in 2018-19.

### Current Financial Performance of IT Sector in India

As per the annual report of NASSCOM, 2019 IT sector of India is at the surge of its growth

- IT sector shares 7.3% of India's GDP in the year 2018-2019.
- It is ranked at 77<sup>th</sup> in the Ease of doing business scale.
- This sector accounted for US\$33 bn of revenues in the year ending 2019 with 30% growth rate on year to year basis which is a remarkable growth.
- E commerce accounted for US\$43 bn in the revenues for the FY 2019 while Online shoppers contributed US\$120mn and VC/PE investment contributed for US\$6.6bn during the said period.
- The sector generated approximately US\$10bn through M& A in the FY ending 2019.

### Other Indicators of Financial Performance of IT Sector in India

- There are approximately 200 Indian IT companies across the world
- NASSCOM initiated a digital platform aimed to generate over 2 million technological professionals and also heading towards another 2 million potential employees and students.
- Revenue growth in the "BFSI vertical" stood at 6.80 % y-o-y during the quarter ending September 2018.
- PE investments in IT sector accumulated to US\$ 2,400 million in the Q4 for the year 2018.
- Venture Capital (VC) investments in this sector accumulated to US\$ 53.0 million in Q4 of the year 2018
- IT exports expected break the resistance level of US\$ 126 billion in the year 2017-18.
- Indian IT sector created a new height in the revenue generation of US\$ 181 billion in the year 2018-19

### Emerging Challenges of IT Sector in India

Though IT sector is the most dynamic sector among the others operating in the country which have infinite number of challenges thereon, some of the major challenges are listed below

- Trade wars between the competitors, specifically price wars which may in turn effect the financial performance of the sector.
- Uncertainty of IT policy owing to the dynamic environment and vulnerability thereon.
- Currency fluctuations – is the major variant effecting the financial performance of the IT sector.
- No deal Brexit is perhaps the biggest havoc in this sector as it drives all the efforts to nil.
- Weakening of financial market sentiment is yet another challenge faced by the IT sector of Indian economy.
- Regulatory changes in new technology are another major challenge faced by this sector.

### Road Ahead

IT sector of India is the favorite destination for the FDI investors all over the world. The gamut of Indian IT talent has already swiped the world's economy off its feet and is now looking ahead to make highest records of its own capability as well as financial performances. For the FY 2019 this sector is expected to further grow by 7-9% i.e. around US\$ 135-137 billion and by the year 2025 it is expected to achieve the level of generating revenue of about US\$ 350 billion, further till the end of 2025 BPM is expected to account approximately US\$ 50-55 billion of the total revenue. NASSCOM is continuously setting long run benchmark targets for this sector and is also maintaining close watch on the same. After the release of the NASSCOM CEO survey report 2019 BVR Mohan Reddy, founder and executive chairman of Cyient and a member of NASSCOM's executive council, said "We are close to it and we are in the right direction. This year we grew over 9% and beats our own expectations. We are still doing very well directionally,". His statement marked the satisfactory of growth of the IT sector of India and also made clear the road ahead to this sector of the country.

### Conclusion

The study concludes that IT sector is the life blood of the Indian economy. The study and analysis of the market size and the major segments of the sector drew conclusion that IT sector is growing with a good pace in the Indian economy and is expected to grow further. Though there are some challenges which are faced by it but the IT talent of India is brilliant enough to cope up with dynamics of

downturns if any. The sector has outperformed financially since the ages and had even managed to keep average and even above average performance in the time of other economic or fiscal or political adversities in the country. This is perhaps the only sector which always kept positive trend irrespective of other economic variants. The sector is creating new bench marks in itself now and is expected to create new performance level records in the near future. Financial performance of the sector is above average and is expected to achieve new levels in near future which will pull the economy of the country in the light of Financial Surplus then.

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