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Impact of Rupee Depreciation on IT Sector of Indian Economy

Ananya Priya

School of Management Studies, DSPMU, Ranchi

Abstract: *The Indian Rupee has significantly declined in value relative to other major currencies as a result of its volatility. In this advancing world, there are many things that have an effect on each other in some way or another. The effects of these economic changes are seen in the overall economic growth of a country. One of the uncertainties related to global trade is the fluctuation of exchange rates.*

Every area of an economy is impacted by this exchange rate fluctuation. The IT sector is one of the most crucial sectors of Indian industry as well as one of the largest drivers of export revenue for the country. Currently, this industry contributes about 7.7% of GDP.

Depreciating currencies typically have a negative impact on several country sectors. However, the weakening of the rupee has been advantageous for the Indian IT sector. The US and Europe are the two regions where the Indian IT sector generates the most money.

This is anticipated to have had an effect on the IT sector, which depends mostly on exports of hardware and software items as well as on the services provided by Indian IT workers in the US. This study aims to analyse the impacts of currency depreciation on the IT industry of Indian Economy.

Keywords: *Indian Rupee, Currency Depreciation, Exchange Rate, IT sector, Indian Economy*

I. INTRODUCTION

When the market's supply of foreign currency is insufficient to meet the demand for it, depreciation occurs, which results in a decline in the value of the domestic currency.

The weakening of the rupee has led to an impending economic recession in India, one of the world's developing major economies. Since Indian independence, the national currency has had a bumpy ride. Its progress has been impacted by numerous geopolitical and economic changes during the past 66 years.

In 1947, India's balance sheet did not include any foreign borrowings. With the advent of the Five-Year Plan in 1951, the government began using foreign borrowing to fund welfare and development initiatives. The rupee needed to be devalued to do this. India had made the decision to use a fixed rate currency system after gaining independence. Between 1948 and 1966, the rupee was fixed at 4.79 against the dollar.

The Indian rupee's exchange rate versus the dollar in 1975 was 8.39. It was further depreciated to 12 to the dollar in 1985. India experienced a severe balance of payments problem in 1991, which necessitated a significant devaluation of its currency. High inflation, slow economic development, and insufficient foreign reserves prevented the nation from even covering three weeks' worth of imports. In these circumstances, the currency's value was reduced to 17.90 to the dollar. In 1993, currency was allowed to fluctuate at the whim of the market.

The exchange rate was left up to market forces, with provisions for central bank intervention in cases of excessive volatility. The value of the currency this year versus the dollar was devalued to 31.37. Between 2000 and 2010, the rupee fluctuated between 40 and 50. Most often, it was at or near 45 percent to the dollar. In 2007, it reached a high of 41.34. Since the global economic crisis of 2008, the value of the Indian rupee has steadily declined.

Table 1: Rupee vs Dollar

Year	1947	1967	1974	1985	1991	1993	2007	2019	2021
1USD to INR	4.76	7.50	8.10	12.36	22.68	31.37	41.34	70.42	74.30

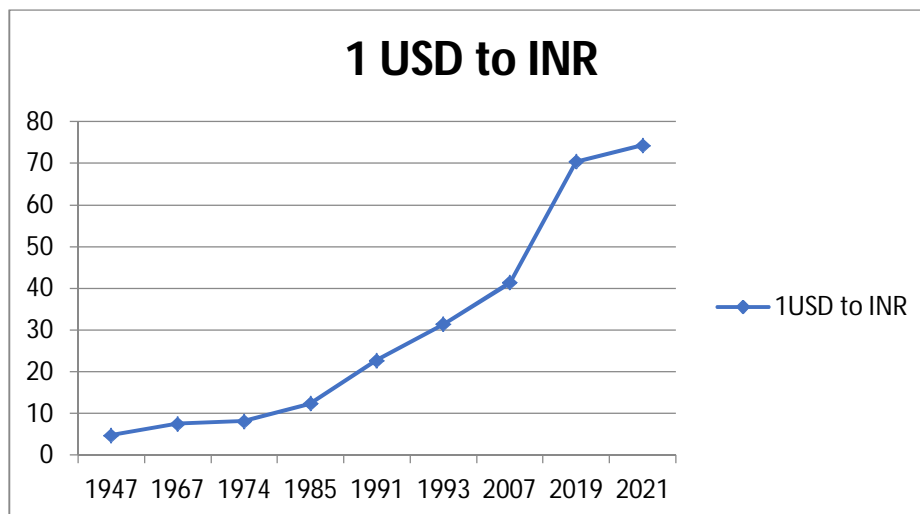


Figure 1: Rupee price change (1US\$ to INR) from 1947 till 2021

Source: RBI Official Website

A. Objective of the Study

- 1) To understand the concept of exchange rate and currency fluctuation.
- 2) To analyze the rupee value against dollar.
- 3) To analyze the impact of Rupee depreciation on IT sector of an economy.

II. METHODOLOGY

The current study comprises a systematical approach based on secondary data gathered from numerous reliable sources, including journals, books, government records, and websites. So, the present study is conceptual in nature and no statistical tools have been used.

A. How Rupee Depreciation affects the IT sector

With a few notable exceptions, it is obvious that the rupee has significantly declined against the dollar over the past forty years [1]. Over time, the variables that caused the rupee to decline were being developed. The variables that caused the value of the rupee to plummet suddenly, even though they had been building up gradually over time, were rising current account deficit, high inflation, balance of trade position, flood of dollars into India in the form of FDIs and FIIs, and policy paralysis. Traders frequently supply the trigger that the market needs for a value to appreciate or depreciate.

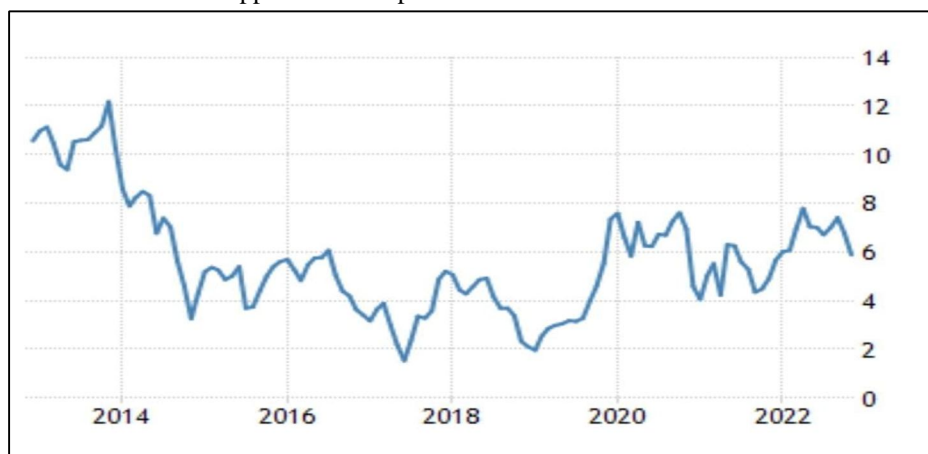


Figure 2: Monthly Inflation change from April 2013 till November 2022

Source: <https://tradingeconomics.com/india/inflation-cpi>

The main contributors to this devaluation are gold and India, which imports more petroleum products than any other country. Since the majority of these sectors rely on the rupee as their primary source of income, the depreciation of the rupee has a negative effect on them. However, some industries in India, particularly those in the information technology industry, may benefit from the weakening of the rupee. And the reason for this is that a large portion of their profit, expressed in dollars, originates from abroad [2]. As it earns in US dollars and other foreign currencies, the Indian IT services and technology sector has benefited the most from the rupee's decline [3].

Any decline in the rupee enhances their earnings as more than 50% of their revenue comes from the US. Rapid US dollar appreciation throughout the year may partially or completely undo the pricing progress that major IT service providers like Tata Consultancy Services, Infosys, Wipro, and HCL Tech have reported over the past two to three quarters [4-6]. India's exports of software services were \$171.9 billion in 2021–2022—a 15.9% increase over the previous year. In 2021–2022, 42.5% of Indian IT exports went to the US, making it their top market. The Indian IT industry will profit from the rupee's decline versus the US currency if this trend continues [7].

Due to inflation adjustments in their important markets like the US and Europe, leading IT businesses have reported pricing improvements in new digital sales. Analysts contend that the rupee's loss against the dollar (about 10% since January) may act as a barrier to better pricing since consumers will perceive that supply is becoming more affordable, leading to demands for price reductions in a tight financial situation.

The top four Indian IT services companies see an increase in revenue of at least 3% as a result of the rupee's declining value against the US dollar [8]. For every one percent change in the rupee-dollar exchange rate, the margins and at least 2 to 3.5 percent of the net profit of an IT services organizations are impacted by 40 basis points.

The RBI's monetary policies, slower unemployment growth, weaker capital inflow, increased debt loads for businesses and government, and expanding current account deficits may all be contributing factors to the rupee's depreciation. It helps the IT industry, which is export-focused. In the short run, it will benefit the IT sector since more foreign capital will be invested in it, increasing their cost competitiveness.

Long-term currency depreciation causes inflation, impairs market sentiment, and will prevent domestic IT firms from signing new contracts. Three months from now, the rupee's fall will result in modest gains for the companies' top line. The effect of the weakening rupee on a company's bottom line will differ depending on the hedging arrangements these companies have taken. The actual issue is that neither businesses nor even customers are aware of where to hedge. Three months from now, the rupee's fall will result in modest gains for the companies' top line.

III. CONCLUSION

Recent rupee depreciation versus the US dollar may be advantageous for domestic IT companies, which are now under margin pressure due to a difficult operating environment. Since the start of current fiscal year, the Indian rupee has decreased by more than 4%. The fact that the stock market is volatile, the rupee is still losing value, and government bond yields are rising indicate that investors do not believe the Indian government is in control of the situation. As a result, the investment cycle is at its lowest point, which puts additional pressure on the rupee. Sectors that are solely focused on domestic markets suffer severely from depreciation. However, several industries benefited from the decline in the value of the rupee. Given that IT companies that export software generate the majority of their revenue in dollars and that the US is one of their main markets, and that the majority of their expenses are incurred in rupees and that the majority of their deliveries are made from India, profit margins will increase in tandem with the depreciation of the rupee.

Hedging practices vary among top firms including Infosys, Tata Consultancy Services, HCL Technologies, Wipro, Tech Mahindra, and Mindtree, which is one of the crucial elements affecting profits from the weakening rupee. According to reports, domestic IT companies often hedge 30% of their overall accounts receivable. The study's findings revealed that only a small percentage of small capital IT companies experienced particularly concerning levels of forex exposure, whereas the majority of large capital IT companies had already acquired their foreign exchange and were not significantly impacted by their respective Forex exposure. There are more factors besides only the hedging strategy.

One is your level of offshoring, for instance; more offshoring results in a lower natural hedging, which increases the benefit of currency depreciation. Second is margin profile. The length of a company's hedging time also affects the size of its forex gain; a longer hedging period delays the benefits of rupee depreciation against the dollar. IT services providers insure their project-related receivables at a certain currency range for a range of time periods.



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