

On Sustainability of it Service Business in India: A Financial Operation Perspective

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Abstract

In the current work, we have created a model encapsulating the financial operation of the India-based IT outsourcing companies. The advantages of cost arbitrage start weaning away with higher wage inflation in India. With actual industry data as input to the model, we observe that it is really the high growth rate of the Indian IT industry which is negating the high wage inflation and infrastructure cost escalation in India. As the Indian economy continues to grow, the labor cost and infrastructure cost will keep on increasing, reducing the advantage of 'Cost Arbitrage'. As long as the growth rate is in the range 20-30%, there will not be any challenge due to higher inflation. Change in USD/INR exchange rate also plays a significant role. However, once the growth rate goes down below 20%, sustenance of the Indian IT will depend on the improvement in productivity.